SELECT COMMITTEE ON CHARITIES

Written Evidence

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Summary of Recommendations

1. The Government must strengthen its efforts to promote volunteering
2. There needs to be a cultural re-set in the Government’s approach to charities
3. The Minister for Civil Society needs to ensure consistent and supportive legislation affecting charities

Background

The Abbeyfield Society is a charity that has been providing support, sheltered housing and specialist homes for older people for 60 years. Our charity benefits from the active support of 4000 volunteers who spend time with our residents, work behind the scenes in our houses and raise funds.

As well as harnessing the power of volunteers, Abbeyfield’s charitable activities include: funding research into best practice in elderly care; offering free services to the wider communities where we operate; maintaining and developing houses in less affluent areas where many private providers are disinclined to invest; committing to affordable rents; reinvesting any surplus we make into the services we provide; and supporting houses internationally in countries such as South Africa with the aim of establishing an exemplar.

People are becoming far more critical of the charitable sector and in some cases rightly so, but we can’t lose sight of the fact that charities are playing a crucial role in society where many commercial organisations are not prepared to be involved. In Abbeyfield’s case, for instance, we are helping vulnerable older people retain as much independence as possible and thus reducing the strain on the NHS and social care systems. For this sort of work charities deserve recognition and support from the Government.

Recommendations

1. The Government must strengthen its efforts to promote volunteering

Abbeyfield volunteers undertake range of activities from befriending right through to being Trustees of our Member Societies (which are independently registered with the Charity Commission). As an umbrella charity with individual societies throughout the UK and abroad, we rely on the support of nearly 1000 Trustees many of whom shoulder considerable legal and financial responsibilities. Recruiting appropriately skilled Trustees has always been a challenge and this is reflected throughout the charity sector. In recent years, the situation has worsened, seemingly because professionals no longer have the same ethos of voluntary service as their parents or grandparents’ generations.

In its 2015 manifesto the Conservative party committed to a volunteering pledge to ensure larger companies and the public sector allow their employees to volunteer for three days a year. In August 2015 Abbeyfield received assurances from Rob Wilson, Minister for Civil Society that he planned to set out plans to this end. Firm proposals have yet to emerge but
it is important that the Government pursues this and other ways of encouraging longer-term professional volunteering roles because these are central to the future health of the UK’s charitable sector.

Similarly, we believe that the Charity Commission should take a more proactive role in helping charities recruit trustees by putting its Trustee guidance into context and by promoting the benefits of being a Trustee. We believe that at present this guidance is too focused on risk.

2. There needs to be a cultural re-set in the Government’s approach to charities

There needs to be a cultural re-set within Government where the starting point reverts to a recognition of the essential contribution charities make to society rather than seeing them primarily as a regulatory challenge. Of course charities themselves must do more to demonstrate their value to society. Allied to this, the Minister for Civil Society has a crucial role to play in creating a climate in which charities can flourish. To this end, the Minister needs to make sure that he listens to the broadest range of charity voices. If you keep on asking the same charities the same questions, you tend to get the same answers and a fresh approach is required.

3. The Minister for Civil Society needs to ensure consistent and supportive legislation affecting charities

There have been a number of recent legislative proposals that could impact severely on Abbeyfield’s ability to fulfil its mission and may even undermine the viability of our operations. It worries us that no one had apparently considered that these proposals would impact on charities differently than they would on commercial organisations before the legislation was drafted. The overall lesson from these is that someone needs to ensure that the charity sector is taken into consideration when legislation is being framed. We believe that this is a key part of the Minister for Civil Society’s role.

Two examples of this are outlined in brief below.

• Proposal to require all social landlords to reduce their rents by 1% a year as part of the Welfare Reform Act. The application of this to sheltered housing has now been delayed until April 2017 while the government considers its impact. This issue has been rumbling on for nearly two years and has caused significant uncertainty for many charities. If it were to be applied, this would mean a 13% reduction in income for Abbeyfield’s sheltered and independent living houses and thus their viability could be threatened. Beyond that, the Government doesn’t seem to understand that the continued uncertainty is in itself damaging. From the moment the proposals were mooted over 18 months ago, Abbeyfield has had to revise its financial assumptions and revise our development plans accordingly.

• Proposal to cap Housing Benefit for vulnerable older people at Local Housing Allowance levels which would mean that an older person paying a typical rent of £191 a week to live in one of our sheltered houses would have a rent shortfall of £96 a week. Typically older Housing benefit recipients have no access to resources to fund this deficit.
As Abbeyfield is providing these services at cost and with the support of volunteers, there is no scope for reducing rents. By living in our sheltered houses where we provide two meals a day and a sense of genuine community, our residents are encouraged be as independent as possible while reducing their impact on the health service. Whilst the Government has estimated immediate savings to the public purse of this LHA proposal is £225 million a year, this proposal could cost as much as ten times that in terms of extra cost to the Police and NHS if applied across the UK’s supported housing community. In a climate where bed blocking is already costing the NHS nearly £50 million a month, this proposal doesn’t make sense. Someone in Government should be considering the true impact of such measures long before the uncertainty and disruption they cause becomes a reality.

2 September 2016
Introduction to Access

1. Access – The Foundation for Social Investment (Access) exists to make it easier for charities and social enterprises in England to access the capital they need to grow and increase their impact. We bridge the gap between charities and social enterprises on one side and social investors on the other, to help make social investment easier to find and more relevant for charities and social enterprises.

2. We deliver two major programmes: 1) the Growth Fund on behalf of the Big Lottery Fund (BLF) and Big Society Capital, providing blended finance for social investment intermediary organisations allowing them to offer small scale unsecured loans to charities and social enterprises; and 2) fund investment readiness capacity building programmes through a £60m endowment provided to Access from the Cabinet Office.

3. More information about our work and strategy is available here: http://access-socialinvestment.org.uk/us/mission/

Response

4. Given Access’s area of expertise and remit, our response is limited to addressing question 8: What is the potential of social investment and what barriers are there to fulfilling its potential.

5. Social investment has enormous potential to support the charity and social enterprise sector to become more financially resilient, self-reliant and ultimately to deliver greater impact. It can be a vital tool for organisations which have the potential to generate revenue or to own property to build up their balance sheet, diversify their income and take more control of their future.

6. Much has already been achieved to help to create a thriving social investment market in the UK, however a number of barriers remain. Below we outline how our work is contributing to addressing three of them and how this could be built upon.

7. Social investment products need to be better suited to what charities and social enterprises are asking for. Blended finance is a key tool in making that happen:

8. Evidence, from surveys such as SEUK’s ‘State of the Sector’ and Big Lottery Fund’s ‘Investment Readiness in the UK’, consistently show that the majority of Charities and Social Enterprises seeking investment are looking for amounts below £150,000. Often, they are looking for investment well below this figure:

“The message is a consistent one: the average amounts asked for are £100,000 or below.”

‘Prospecting the Future’, SEUK
9. However, research has also established that the majority of social investments being offered are much larger than this, and usually not below £200k. Those investments offered at a lower level were often unsuitable, or unavailable:

“Ventures often feel [repayable finance] is too risky or simply does not exist in a form which they would feel able to commit to (i.e. an unsecured loan).”

‘Social Finance in the UK’, Design Council

10. If more smaller loans could be offered, and made affordable to social investors to offer, then many more charities and social enterprises could use social investment to grow sustainably.

11. Access is leading the charge to increase the supply of smaller scale loan finance to charities and social enterprises through the Growth Fund, which has been established with Big Society Capital and the Big Lottery Fund. The Growth Fund provides a blend of loan and grant to social investors who make small scale investments into charities and social enterprises. We have £45m to commit and the first fund we have invested in is now open for lending to charities and social enterprises in South West England.

12. Blended finance is helping to make social investment more relevant to charities and social enterprises by connecting the varying objectives of investors with the current needs of social organisations. It’s helping to make sure that supply of social investment matches demand from charities and social enterprises. The principle of blending finance is to mix together a number of sources of capital, each investor with their own objectives and requirements, and create an investment product which better meets the needs of charities and social enterprises.

13. The Arts Impact Fund is one such example which brings together public, private and charitable sources of investment to provide repayable finance of between £150,000 and £600,000 for arts organisations. The fund totals £7m and seeks to demonstrate the impact which arts organisations make and how this can be better supported through loan finance. A national dance agency, amateur dramatics group, and artists’ studio space were the first three organisations to receive investment from the fund earlier this year.

14. Using loans to support arts organisations in this way is relatively untested and it is unlikely that any one investor would have been able to build a fund to meet this need. If the Arts Impact Fund proves to be successful then there is every chance of more funding following in the future. There may also be opportunities to replicate similar models in sport.

15. Blending doesn’t only need to happen in funds. It can also happen in individual investments for charities and social enterprises.
16. Power to Change have been working with Key Fund and Social and Sustainable Capital (SASC) to use their grant funding to unlock extra investment for individual community businesses which wouldn’t otherwise have been possible. One example of such an investment is in Storeroom 2010, a social enterprise situated on the Isle of Wight that enables deprived families to affordably furnish their homes, strengthen their quality of life and preserve their dignity. Storeroom received a blend of a loan from SASC’s Community Investment Fund and a grant from Power to Change to purchase their warehouse and develop corporate partnerships.

17. By the end of 2016, Power to Change estimate that £2 million of grant funding will have allowed another £6 million of additional social investment to be accessed.

18. More investors from the public, private and charitable sectors should be encouraged to consider options for blending their funds in order to create investment vehicles which are better suited to the needs of charities and social enterprises. Continuing with the trend towards greater transparency which the sector is now witnessing and the greater sharing of data about social investment deals will help to encourage this to happen.

19. **Many charities and social enterprises who could benefit from taking on social investment need support to be able to do so. Dedicated capacity building programmes can help make that happen:**

20. Managing repayable finance is a new proposition for many organisations in the sector. It requires business planning, systems and skills for managing impact and financial information, robust governance and strong leadership amongst many other things.

21. While the opportunities presented by taking on social investment have the potential to help many charities and social enterprises, many of those may need help to build those skills and capabilities.

22. Programmes such as the Investment and Contract Readiness Fund and Big Potential have established that grant funded support can help charities and social enterprises develop these skills and capabilities and therefore go on to secure investment and potentially also win contracts. However, the timescale for these programmes is limited, with Big Potential due to come to an end in 2017. To secure longer term funding for such capacity building programmes, the Cabinet Office endowed Access with £60M to spend down over ten years on funding more of these sorts of initiatives. We believe that helping more charities and social enterprises to be investment ready in this way will increase the demand for and effective use of social investment from the sector.

23. Our own consultation in 2015 on the investment readiness needs of charities and social enterprises highlighted the following areas as critical capacities which need to be built in order for VCSEs to better engage with social investment:
- Leadership: skills, confidence and ‘thinking time’
- Governance: knowledge and risk appetite of trustees, systems & processes
- Impact management: an organisation’s ability to quantify, report on, increase and ‘get paid for’ its impact
- Finance and business modelling: skills, confidence, tools and time to develop proposition
- Marketing: market-testing new ideas and effectively selling them
- Systems and use of data: an organisation’s ability to collect, analyse and respond to slick, relevant data in real time, through maintaining user-friendly and cost-effective systems

24. Our consultation also highlighted the following design principles as key for shaping how capacity building programmes should be delivered:
   - Plain Language: consistently check for clarity and shared understanding
   - Starting Points: ‘social investment’ as a term in the abstract is not compelling for charities and social enterprises. Programmes must put this instead in the context of the organisation’s mission
   - Peer Support: using existing networks wherever possible, deliver key messages and invitations through people and organisations which VCSEs identify with and trust
   - One to Many: workshops/group discussions are cost-effective, encourage stronger networks, & provide a route to more bespoke, one-to-one support
   - Diagnosis and ‘Triage’: through a variety of on- and offline means, quick and inexpensive processes to identify investment potential and support needs is fundamental to effective programme delivery
   - Openness and Transparency: as a general expectation and attitude across all partners and investees, expressed through regular publication of high quality data, and demonstrated via responding to learning gleaned from such data.

25. Access has launched two major capacity building programmes which are aimed at addressing these capacity gaps in the social sector, the Reach Fund and the Impact Management programme. We will be working with other foundations and funders to share the lessons from these programmes and encourage them to build on what works.

26. More capital could be deployed to support charities and social enterprises if more foundations followed a total impact approach. Asset managers for charities need to offer more options to achieve this:

27. Access pursues a total impact approach to our work. This means that we will consider the social and environmental impact of everything we do, including where we place our endowment.
28. Our capacity building programme is funded by a £60m endowment we were given by the Cabinet Office in 2015. We will spend this over ten years funding programmes which help charities and social enterprises to engage with the social investment market and become investment ready. £43m has been received to date with the remainder due to be received by Access over the next few years.

29. Rather than simply holding these funds in the bank before they are given in grants in the later years of Access’s life, The Foundation is seeking to use them to make investments which will achieve as much social impact as possible, before being repaid and then used to make grants.

30. In defining the impact we are seeking to achieve, we developed a set of priorities for how the endowment should be invested which align closely with our mission of increasing the flow of capital to charities and social enterprises.

31. The Cabinet Office paper details this approach and provides examples from trusts and foundations. We will work with and learn from others who are considering or have adopted this approach and will share findings. We have been detailing this process on our website.

32. In August 2016 Access announced our partnership with Rathbones to manage the endowment, following a tender process. Rathbones will invest the endowment funds in social and ethical fixed income investments such as charity bonds and other ethical bonds.

33. Similarly Axa are managing a large portfolio for Big Society Capital to maximise the impact of their treasury.

34. Our experience has been that a number of large asset managers have been sceptical about opportunities for pursuing social impact. More asset managers for charities should be encouraged to develop products which offer their clients social impact as well as stable financial returns.

5 September 2016
The purpose of charities
1. What is the role and purpose of charities in civic society in England and Wales?

1.1 Charities lie at the heart of the type of society we aspire to be. They reflect the values of its people, values that are the foundations of any good society. They inspire people to make a positive difference in their communities.

1.2 In addition to amplifying unselfishness and magnanimity in a society, Charities are delivering concrete support to the most vulnerable members of their communities. They fill gaps left by government services and the private sector. Charities are indispensable as they have individual approaches; their intrinsic knowledge of the communities they work in enables them to provide quality targeting, as well as tailored and relevant assistance.

1.3 Charities also play a crucial role as a non-partisan watchdog of government actions and the actions of any individual or corporation that may have negative impact on communities, or groups of individuals that charities are supporting and protecting. They echo, organise and amplify the voice of people who will remain unheard if on their own.

1.4 At both a local and national level, charities are a powerful force for change.

1.5 Overseas, British charities are, willingly or not, the “ambassadors” of a nation. Aid workers are likely to be the principle contact from Great Britain that both the poorest populations and local authorities in remote areas will meet. Their behaviours, their positive impact and their mistakes will reflect on the perception these populations will have of British citizens.

- How has this changed?

1.6 The government has understood the added value of the clinical approach provided by charities. As a result government funding of the sector has grown, initially through grant funding, now through contracting charities to provide public services on its behalf. Two changes have happened:

- The relationship between the state and charities have become those of a contractor and a supplier. Whilst delivery of services must meet standards of quality and accountability, a commodification of the charitable work brings many risks to charities. It may lead some to renege on some of their key principles and values, in order to become a more cost-driven supplier.

- Government spending cuts have placed a higher pressure on costs, forcing charities to focus on larger activities, at the expense of smaller ones.

1.7 Overseas, an over-politicisation of aid has meant that British charities may not be considered by the Government as the appropriate conduit for the promotion of national interests, instead preferring to choose other international bodies or private companies.

- What makes them distinct from other organisations doing similar work?
1.8 Ultimately it comes down to values underpinning Charities’ work and the translation of these values into the relationship with their beneficiaries. Charities galvanise and inspire people to do good; it is difficult to argue the same with private companies, which are not expected to take on this social galvaniser role. Both private companies and charities can provide excellent work, but the former is perceived as rewarding individuals, whereas the latter is about inspiring collective action.

1.9 The non-profit making nature of charities also provides a different drive to their business model, where people are at the centre of the work, rather than financial gain.

**- How does the sector benefit from volunteering?**

1.10 Volunteering is the result of charities inspiring people to make a positive difference for others. Volunteers are the epitome of people going further in living by their values, by committing time and energy to others without expecting any material return.

1.11 In addition to an experienced and dedicated staff team, most charities could not achieve what they do without the help, support and commitment of the many volunteers who give their time and skills. Volunteers are an integral part of many charities. It is a responsibility for charities to create meaningful volunteering opportunities that enable these individuals to flourish by really feeling that they are making an active contribution and/or gaining valuable experience. Volunteering enhances employability, and for many their experience with charities provides a stepping stone to paid employment.

**- What challenges do charities face in trying to fulfil their role in civic society?**

1.12 Public trust in charities has been eroded in recent years as a result of few cases of poor management, bad decisions, and wrong behaviour amplified by some media.

1.13 Charities’ work is perceived as morally but not strategically important. As a result they are not embedded enough into social cohesion and the international visions of governments. Charities represent a massive unexploited potential in this regard.

1.14 Government cuts has decreased resources for charities to deliver their work, leading to an increase in uncovered needs.

**- How can these challenges be overcome?**

1.15 Charities should not rely too much on the respect once automatically bestowed on charities. They have to earn trust, based upon:

- Living their values, with a no tolerance approach for fraud and abuses.
- Inspiring people, whilst demonstrating the positive impact of their work.
- Exemplary management.
- A potential reassessment of their relationship and partnership with the Government. Charities’ financial dependency, supply-side relationship, and sometimes too docile attitude towards the government might have to change for them to fully play their role of helping and advocating for the needs of poorest and most vulnerable communities in the UK and abroad.
**Pressures and opportunities**

2. What are the main pressures faced by charities currently, and what impact have these had?

2.1 Cases of mismanagement by a few charities have been extensively covered by the media. Some of the related campaigns led to a stronger regulation on some charities’ fundraising activities. However, there is not a week that passes without an article against a charity or against international aid. As a result people are becoming confused about charities’ work, especially about their values and ethics.

2.2 While regulation is important in ensuring minimum standards, new regulations will make private fundraising more difficult and will affect capacities of charities to fund financially viable and independent projects.

2.3 The fight against terrorism, Brexit and some campaigns against international development, are also contributing to questions about the rationale of Britain’s approach to the reduction of extreme poverty. The politicisation of international development aid has brought a great sense of confusion, giving the impression that the main priority of DFID may no longer be eradication of extreme poverty, but instead is more about supporting national security and trade. The role of British charities who have a needs based approach may consequently be perceived as disconnected from this narrative, especially as aid is more and more portrayed as creating dependency rather than being a catalyst of economic development and social coherence.

-What opportunities do charities have in the current environment?

There are several opportunities:

2.4 The Prime Minister, Theresa May, has committed to “unite our country” with a bold new positive vision of “a country that works not for a privileged few but for every one of us”. David Cameron’s Big Society did not succeed in enthusing the British society. To succeed, PM May will need to create a visionary transformational partnership with the charitable sector to reach and engage those living in the most deprived areas, and restore the lost confidence in government willingness to work for all.

2.5 The British society has lost trust in some of its most iconic “references”: politicians, banks, big companies, celebrities, churches and charities. Many of those who traditionally inspire people or show a strong sense of values have been hit by scandals. There is a need in the society for people who stand for the values of honesty, respect and solidarity. In this climate, charities have a duty and an opportunity to once again become an inspirational reference in society.

2.6 A difficult fundraising environment has combined with government cuts and realignment of funds to affect many charities. Board and senior management have to look at their business model, and merging might become more an option than it was in the past. Diversity is extremely important in the charitable sector, but building financially viable
organisations will help with achieving greater coverage of needs, as well as having better impact and leveraging more changes.

2.7 Overseas, many British charities are delivering assistance in war torn areas and fragile states. Working in such environments require skills, experience and resources. There is an opportunity for the British Government to support British charities to become high performing organisations in violent and fragile contexts and to help millions of malnourished children, homeless refugees or displaced people. This opportunity will require a special partnership, with the right balance between the Government’s security agenda and charities’ humanitarian principles.

2.8 After Brexit, Great Britain will look to affirm its presence and influence in the world. British charities are present in over hundred countries and are recognised as some of the best. Charities’ role in affirming British values and standing is underused. Maximising such potential will require a much more proactive approach from the Government to support them in delivering their assistance. Assistance is a more effective approach to garner acceptance than interference.

**Innovation**

3. How do charities seek to innovate, particularly in the digital arena?

- What more could be done to promote innovation, and by whom?

3.1 To stimulate innovation, there should be an appetite for risk, and an acceptance of failure. What is often available is investment funding to scale up approaches that might be innovative, but have already being tested. This means that the risks have already been taken. Currently, the research and development phase often has to be covered by the charity, and the investment then comes for the scaling up.

3.2 More investment in research and development is the obvious recommendation, but this should not be all allocated into a specific funding scheme. Adaptive management is innovation. In very difficult contexts where the situation is moving rapidly, with windows of opportunity that are closing quickly, flexibility to adapt to the situation without having to ask for authorisation from the donor is critical. Bureaucracy is not conducive to innovation. It comes with a principle of sharing risks between donors and charities.

3.3 Many innovations remain unheard of or at small scale. More should be done for and by big and small charities to promote and share successes.

- What barriers are there to being innovative?

3.4 Obsession with value for money does not stimulate risks, and therefore is not conducive to innovation. It is critical that the funds are properly used in full transparency, but the narrative might have to change to focus more on the potential of innovations.

**Governance and leadership**

4. What skills are required to lead and manage a charity?
4.1 A values-driven leadership. A leader has to earn the respect of his/her team and supporters, as many of them are driven by and look for strong values and ethics. It means as well to be able to resist pressure and stick to their principles.

4.2 Staff are the greatest asset of an organisation. Attracting and nurturing talents defines the identity of a Charity. Most of the time, charities cannot compete with private sector and few big charities with regards to salaries and benefits, but a culture with strong ethics and clear sense of purpose will attract young talented professionals, as well as experienced staff disappointed with the private sector. Identifying and developing real talents transform organisations.

4.3 Develop an organisational culture where all staff and supporters are contributing to and are proud to be part of. Encouraging creativity, and supporting high performance multiply achievements.

4.4 Strong business management. The fundamentals of managing a charity are the same as a corporation. The objectives and the culture might be very different but the concepts used from strategy development to finance control, risk management, marketing, fundraising etc. are often very similar.

4.5 Adaptability and the capacity to change directions. For example, at Action Against Hunger, our core mission is very clear and has not changed, but our activities have evolved multiple times over the last 20 years. As a result, the organisation has grown significantly in terms of both financial volume, number of staff and contribution to our sector.

4.6 It is all about making a difference and being able to demonstrate impact.

- How can these skills be gained?
4.7 By going through a careful selection of senior managers and Trustees. Leaders and managers need to fit into the culture, and have the skills necessary to fulfil the ambition of the charity.

4.8 Coaching from private sector, other charities or professional agencies are some of the most effective ways to gain skills. Corporations should be encouraged to second their staff on pro-bono basis to coach charity workers.

4.9 Leadership means listening. Often the solutions are within our own team. Therefore it is about creating platforms to encourage staff to express themselves and come up with ideas. Cultivating a diversity of staff with a mix of volunteers through to highly skilled people coming from the private sector, as well as different nationalities and backgrounds, can produce a vast range of valuable expertise and experience.

4.10 Develop systematic internal review and learning mechanisms to have a good understanding of issues within the organisation. The earlier a problem is identified, the more likely it will be resolved.
- What support exists to develop these skills within the charitable sector?

4.11 Supports:

- There are a multitude of training providers, but they are not always affordable.
- Exchange with other organisations.
- Lots of literature on management. Even though these are mostly for private sector, the fundamentals are the same.
- Corporate secondment of staff or coaching on pro-bono basis.
- Learning from the experience of Trustees.

5. What role should trustees play in the performance and effectiveness of a charity?

5.1 Trustees carry out an important responsibility to manage their charities and deliver on their objectives in a way that enhances the public trust and support. The code for the voluntary and community sector [http://www.governancecode.org/](http://www.governancecode.org/) identified six principles for an effective Boards and Trustees:

- Understand their role and responsibilities (including legal duties).
- Ensure that their Charity deliver the organisational purpose.
- Work effectively as a team with the Executive team.
- Exercise effective controls.
- Behave with integrity.
- Are open and accountable.

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

5.2 Four avenues could be considered to support Trustees to fulfil their responsibilities:

1) Regulation: Imposing new regulations and obligations on Trustees would be counter-productive and would not encourage trusteeship.

2) Trainings and seminars for Trustees are available but require resources and time.

3) Membership: Many charities have chosen for not to be a membership organisation. Whilst it might be perceived as ineffective in terms of time spent on governance and slowing down decision-making, members could be a powerful group to keep the Trustees accountable and could provide additional resources to the charities.

4) Self-assessment: This is one of the most effective approaches. Boards should undertake thorough self-assessments of their role and performance every two to three years. The results of such assessments should provide evidence of areas to develop and should trigger a series of concrete actions to reach high standards. The above mentioned code of Good Governance provides clear and comprehensive guidance on the principles, the role, the duties and the best practices of a Board. Fulfilling this code should be an objective for each Board.

**Accountability**

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

6.1 Charities have a duty to explain and account for their actions. It starts by fulfilling their legal obligations. With regards to fundraising, they should commit to the highest standards of fundraising and abide by the Code of Fundraising Practice.
6.2 Accountability and transparency are not just a legal obligation; they are values laying at the heart of a Charity ethos: being open, transparent and honest.

6.3 Charities should explain what they are doing and demonstrate results and impact.

6.4 The choice of information and the language used are important. The information provided should be relevant and easy to understand. Communication should be adapted to the audience and should correspond to the audiences’ expectations.

**Resource management**

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

7.1 The financial sustainability of charities relies on their ability to find the right balance between spending a vast proportion of their resources on projects whilst receiving enough funds to cover their functional costs and support investment. Their purpose is not to make a profit, but charities need to achieve positive net financial results so as to build sufficient reserves and avoid bankruptcy.

7.2 Very few donors are interested to see their donations used to cover non-project costs. However, these are critical for charities’ survival and development.

7.3 Costs of fundraising, especially for recruitment of individual donors, has become prohibitive with returns on investment over periods of 3 to 5 years. Only well-resourced charities can afford such investments.

7.4 Charities have developed a high dependency on grants from Governments and/or Foundations.

- **How can these challenges be overcome?**
  7.5 By maximising cost recovery.
  7.6 By building a very flexible structure that can absorb shocks, especially a decrease in grants.
  7.7 By diversifying sources of grants.
  7.8 By making private fundraising a top strategic priority.
  7.9 By investing in new ways of fundraising such as trading.
  7.10 By promoting Charity-Corporate organisational partnerships, a model whereby a corporation would invest in a project but also in the development of a charity (by transferring skills, investing in its infrastructure, staff...).
  7.11 By encouraging the Government to increase initiatives such as UK aid match, which is highly appreciated as a mechanism that encourages British public to give to charities.

5 September 2016
Charity governance and sustainability in relation to public sector procurement

1. Summary

Charities are increasingly being funded by government through formal, commercial-style, procurement procedures. These procedures are often masked by using the language of grant-in-aid. This approach places control of the service to be delivered firmly in the hands of those procuring it and risks removing some key areas of control from the charity and its Trustees, undermining their responsibilities as charity Trustees. In particular this approach denies charities ownership or control of key intangible assets such as intellectual property rights, unique delivery methodologies or branding. This can result over time in greater dependence on statutory contracts, limits on innovation and disincentives for charities to invest in their own financial sustainability. The impact is greatest on charities that either address less popular causes or are seeking to innovate in ways to which standard procurement approaches do not lend themselves. The full impact will only be measured over the long term as it will be a consequence of repeated rounds of competitive procurement.

2. The Problem

2.1 Intangible assets

The relationship between public sector procurement and charities’ governance and sustainability may not be immediately apparent, but in many areas it has now become a dominant issue for local charities when trying to maintain their independence of thought and action.

Good governance of charities is about ensuring assets and resources are subject to careful and rigorous stewardship, including their efficient application to each individual charity’s purposes. Recent developments have made it clear that good governance must be exercised over intangible assets as well as tangible ones. Reputation, intellectual property, intelligence and branding are all assets that come under Trustees’ ownership and must be guarded and developed with as much rigour as property, financial assets or human resources.

2.2 Culture change in the public sector

The public sector, through grant-in-aid, has supported the growth and development of charities and, over the last forty years, this has increased the charity sector’s dependence on it. This is especially true of charities whose work has a limited emotional ‘pull’, is in a sector
that is not easy to communicate to the general public, needs to be carried out in a less visible way or is unlikely to be contributed to by the ultimate user or beneficiary.

More recently the public sector’s ability to support charities through grant-in-aid has fallen in line with general reductions in public expenditure; however its desire to make use of charities to deliver through service level agreements, contracts and other commissioning mechanisms has grown. With this growth has come an increasing reliance on practices and skills developed and honed in the world of commercial procurement. Many local authorities now use procurement procedures for decision making on grant-in-aid that are indistinguishable from those used for letting contracts to maintain fleets of buses or repair the roads. The final ‘grant offer and acceptance’ paperwork masks this trend by using some grant-in-aid terminology, but the agreements should be viewed for what they are: contracts. Contracts are the subject of re-commissioning on a frequent basis, often subtly changing the focus or name of what is being commissioned, breaking relationships and continuity between the charity and its beneficiaries or simply creating confusion with a landscape of fragmented delivery.

2.3 Unpopular causes

The simple response is caveat emptor. If Trustees do not wish to engage in this kind of agreement they do not have to; for those working on ‘unpopular causes’, however, this is not a straightforward decision. Charities may need to seek resources in this way in order to meet the needs of their beneficiaries and there are implications that arise from this. Charities that feel they have little choice but to seek resources in this way risk expending significant amounts of their own resources on highly complex tendering and re-tendering exercises. The contracts themselves allow little overhead recovery through which the cost of the next round of tendering can be supported.

The critical issue is sustainability, its interrelationship with ownership and thus with governance and the risk of being pulled away from the purposes for which the charity exists.

2.4 Charities and market failure

Small government’s mantra is to avoid using tax payers’ money unless there is no other option. The market may be able to provide a service and should be left alone; regulation may be required, if so, government will regulate. It is possible to include within this definition of the market the capacity of ‘brand name’ charities to raise money from the general public and apply this to good causes. The market will then provide ‘public goods’ by this means. As a result public sector funding arrangements with charities are becoming confined to areas where the open market cannot make a profit and the ‘fundraising market’ does not have enough emotional charge to provide charities with an income. It is in these areas of charitable activity that the values, methodologies, metrics and language of procurement are now being used. The dominant values can perhaps best be summed up as
seeking to achieve the lowest possible cost per intervention irrespective of the circumstances of the end user or beneficiary.

2.5 The procurement process and its constraints

The procurement process takes as its first and unquestioned assumption the primacy and independence of the person or organisation responsible for initiating the procurement. Without the ‘commissioner’ having absolute knowledge and authority over the service being commissioned the procurement process cannot work. Whether it is commercial companies or charities applying for grant-in-aid, the process requires direct comparisons between those competing for contracts or grants. Commissioners must be independent and have no contact with organisations that may be bidding for a contract or a grant once the process has started, and often for some time before. There must be no suspicion, rightly, that the detailed specification has been influenced to the advantage of one potential bidder. The result of this is that the commissioner ‘owns’ what is being specified, the charity in merely delivering to their specification for the period of the grant or contract.

It is this sense of ‘ownership’ that brings about difficult questions of governance and sustainability.

2.6 Financial sustainability

If a charity is to achieve sustainability beyond an initial contract (or contract dressed in grant clothing) doing so is entirely dependent on the charity fully owning the service. The charity and its Trustees must own the intellectual property, the brand and the reputation of the service as well as any physical assets. There is no prospect that they will be able to build up non-governmental lines of revenue for the service unless they do. It is hard to know what else ‘sustainability’ means if it is not this. Without ownership there is also no ‘good governance’ incentive for the charity to invest its own resources in sustainability, as the intangible assets remain with the public authority. At the conclusion of a fixed, and often short, period the contract/grant from the public sector may, on review, be given to another organisation. When this happens staff may be transferred under TUPE and all investment in human resources will be lost. Taken together, the narrowly defined service that is the subject of the specified grant or contract will have mutated into a virtual entity in its own right that is owned by the commissioner. It exists outside of the governance of the charity and is dependent on the commissioner’s commitment to ‘keep it alive’, rather than that of the host charity.

There is a belief that exposing charities to ‘commercial-like’ procurement processes will make them more business-like, more efficient and less dependent on the public sector. The opposite is true. Forcing charities into a procurement channel simply makes them choose between permanent dependency on a public sector that retains the essential intangible assets of the service or walking away from the public sector in order to build up and retain these assets themselves on a much smaller scale. If they choose the latter they may find
themselves competing with a service that is procured through a different host charity, but they will be competing against a short term subsidy from the public authority.

2.7 Impact on co-design, innovation and partnership

As this culture takes an increasingly firm hold on local government and the local charity sector, the skills and knowledge of the sector are driven out of any co-design, innovation or partnership based approaches. Commissioning staff within local government dare not discuss innovative ideas with charities because they may be perceived to be overly influenced in the procurement process. Equally charities shy away from sharing their intelligence or knowledge with the public sector because they have no confidence that a problem solving partnership will result or that they will not be placed in a position of competing to deliver their own ideas.

The losers are the beneficiaries of those charities who are aiming to serve unpopular causes or those who are not easily served in a standardised way. These are also charities whose Trustees and managers cannot (or are ethically not disposed to) win income from aggressive fundraising. It is especially the case for charities seeking to provide services in rural areas where delivery costs are often greater, given that very few procurement processes recognise this differential.

3. Some possible solutions

3.1 Challenging the emerging status quo

The first part of the solution is to recognise that there is a problem. Much of the public sector has convinced itself that the current approach to procurement is a fact of life and cannot be changed. A generation of public servants has grown up equating value for money with competitive procurement and can conceive of no other way. The truth of this is so universally accepted that evidence to support it is not even sought. The same was true several years ago in the automotive industry until the disruptive creativity of the Japanese car makers introduced the more efficient approach of ‘partnership sourcing’.

3.2 The case for true partnership

Both charities and public sector organisations must recognise that charities and their Trustees exist because they fill a need that is not being met by the market. By definition, an approach based on artificially created markets for public sector contracts will not achieve genuinely long term and sustainable solutions for some categories of charity beneficiaries. Actively created and sustained delivery by partnerships between multiple charities and commissioning public sector organisations are much more likely to reach ‘non-standard’ beneficiaries such as those in rural areas.

3.3 Control and letting go
Public sector commissioners have to make a choice between short term control in order to deliver a narrowly defined service definition on the one hand and long term impact on the other. Long term impact is achieved by giving ownership and control to a charity, or a group of charities working together, that provides them with an incentive to find a route towards sustainability.

3.4 Primary purpose trading

If the route to sustainability is primary purpose trading then the most effective input to a charity is to bolster its unrestricted balance sheet, require it to retain a higher and longer term free reserve and then encourage it to use this financial stability to build non-governmental income streams. Simply contracting with it on a prescribed basis over short periods with a ruinous permitted contribution to overheads is nothing more than guaranteeing a slow death of the individual charity and possibly even of whole parts of the charity sector.

20 July 2016
1. ACRE is the umbrella body of a network of 38 Rural Community Councils (RCCs). This network operates across all of England’s counties, including some of the most remote areas of the country. Our distinct voice for rural communities comes through the wealth of evidence and intelligence provided by the network, and from which we are able to outline what is the unique rural context and the impact this has on rural charities.

2. Our key points are:
   - The rural context is unique and is characterised by market failure and public spending constraints,
   - That context leads to rural charities having very different needs,
   - Rural charities have a key role in delivering services to rural communities,
   - Village Halls have significant potential to improve the quality of life for rural communities
   - The 38 RCCs have a key role to play in supporting rural charities and potentially complementing the regulatory role of the Charities Commission

Specifically we are providing responses to questions 1, 2 and 9.

3. Q1: In rural areas charities have a distinct and vital role of addressing market failure and providing the services that are fundamental to the fabric of rural life. Market failure occurs because of the sparsity of population and dispersed communities. This means that normal market solutions, frequently effective in driving up both quality and choice in urban areas, do not apply. This context also presents government with challenges in delivering services and policies. In these circumstances, the charity model is often the only way to address market failure as it does not require a profit to be made, and enables the effective use of labour by utilising volunteers. Consequently rural charities may be delivering health services, running the local shop, managing leisure services, or providing local transport or affordable housing solutions. If these activities were not being delivered by charities then they would simply not be available to rural communities.

Example: Hertfordshire Scoots is a Wheels to Work project managed by a member of the ACRE network (Community Development Action Hertfordshire). It provides for 12 months a new scooter or motorcycle, insurance, tax, servicing etc, to enable young people living in isolated rural communities to access work.

4. Scale is a critical component of the rural context such that small, wholly voluntary, charities tend to predominate in rural areas. These small charities have as little operationally in common with major national charities as the village shop has with a global PLC: neither the term 'charity'; their regulatory framework; the support that each can afford to access; or the reality of public and media perceptions, differentiate rural charities to the extent that this variation in scale demands.
5. Additional challenges for rural charities include the cost of delivery being higher to sparse populations and dispersed communities, while infrastructure such as transport and broadband is often weak. Where large or urban based charities may be able to draw on either paid for or pro-bono support, for rural areas such professional support is too often dependent on the serendipity of willing volunteers being available in the area, despite the dependence on charities to run basic services.

6. Charities in rural areas are very often the primary vehicle for social action there, and they provide the means by which social capital is built and mobilised. Yet their reliance on volunteers, who are critical to the success of these charities is not matched with resources that will adequately support these volunteers.

7. Q2: Many rural communities will have evidence of need, often identified and evidenced through a Community Led Plan (CLP). Such a plan presents opportunities for collaboration between different parts of the community which ultimately leads to more sustainable rural communities and charities.

8. Particularly in a rural context there is a huge potential and opportunity for the Village Hall (VH) network. There are 10,000 VHs in England which together equates to approx. £3 billion in assets. These community spaces contribute towards civil society and stimulate social action and interaction, and frequently the VH acts as both the lynch pin and the only way for service providers (both statutory and voluntary) to reach rural communities. Building on the process of the CLP there is huge potential to develop the VH network into ‘multi use community facilities’ and ‘rural service hubs’ (see also the VH Network submission).

Example: Village halls in Yorkshire are becoming community hubs to help combat loneliness and isolation for older people. Rural Action Yorkshire ran a trial with seven halls to help them become hubs, providing early social care interventions. Activities were designed to help older residents stay fit and healthy, such as new exercise classes, ping pong club, digital inclusion training, luncheon clubs and book swaps. Almost 300 people benefited from the project, supported by 82 volunteers.

9. However market failure also extends to the support services (for example with governance, fundraising or business planning) that exist for rural charities, as the higher costs associated with delivery in rural areas have considerably diminished these in recent years. Support now available is less likely to be targeted at smaller charities (and has become harder to access and less relevant for them), especially for those which are most in need of support. Broadly put: rural charities (of which many are small) find it difficult to access support to help them to reach their potential.

10. Market forces affecting rural areas are unlikely to change soon, and so the economic viability for private and public sector providers will remain a challenge, sometimes insurmountable. Consequently the charitable sector will continue to be seen as a key deliverer of vital services into in rural communities. Yet for this to continue without individuals (many of which are vulnerable) being disadvantaged simply by virtue of where they live, there needs to requires sufficient support services in place. The 38 strong
network of Rural Community Councils is well positioned to plug the gap and support rural charities because it:

- Understands rural communities and the charities that serve them
- Is the current primary support for VHs and is therefore able and anxious to develop further their potential
- Ultimately exists only to improve the quality of life of people living in rural areas.

11. **Q9**: The Charity Commission’s risk based approach to regulation has appropriately put a greater focus on larger and national charities, but with consequent less emphasis on advice and support for smaller ones. Yet in rural areas this assessment of risk does not take account of community impact, where a VH charity may have a modest turnover but own a £1m or more in assets and make a real difference to a community. If the asset in this case is removed, it has dramatic and far reaching impacts on the local community both in terms of service delivery and of social capital. In this sense VH governance should be considered a higher risk, with sufficient support being made available to ensure sound governance and regulation.

12. We believe an option for the Charity Commission would be to retain overall responsibility for the regulation of smaller charities but to take a different approach given the different risks involved. The CC could put in place more local delivery of a service that integrates governance support with ‘first stage’ regulatory intervention. The key would be to provide light touch support to small local charities whilst also offering direct assistance and guidance when important elements of regulation are not carried out, such as timely submission of annual returns. This would have the multiple benefits of reducing the administrative load on the Charity Commission, enabling problems to be caught early and solved in a way that is proportionate to smaller, low risk charities, while also enabling support, training and advice services to charities to be rendered viable even in more rural counties.

13. To us, the Rural Community Council network would be an obvious starting point from which to develop this light touch, local network of support and first-stage regulatory intervention.

*5 September 2016*
1. The purposes of charities

1.1 How they have changed?

1.1.1 Years ago charities were solely reliant upon funding, as opposed to earned income, from one or more sources. This ranged from public donations to grants from the public sector. During this period of time the role of the charity was to spend the money according to the terms of the donation and the charity’s own objectives.

1.1.2 As time went on tighter restrictions were applied to grants, particularly those coming from the public purse and this required additional skills within the charity to collect data and provide reports, with this work being funded from the grant itself, or by the charity. This meant less money actually going into service delivery as resources need to be funded to service the grant.

1.1.3 Over the past years grants from the public sector have decreased or been issued via a contract, with the net result being a higher level of reporting, greater competition for grants, an opening up of the market to non (or pseudo) charities, the net result being a reduction in income from the public sector.

1.1.4 As a result of these changes the role of a charity has changed from one of “how we spend our money” to “how do we raise income”. This has necessitated charities employing people with a different attitude and skill set, with senior staff focussed on business development, driven by a need to keep the charity solvent.

1.1.5 A constant debate in many charities, at all levels, is “are we a charity or a business?”. Sadly it is now the latter, with finance being uppermost in the minds of Trustees and senior management. However, it is right that charities be run in a business like way, to maximise efficiency, but endeavouring to retain their charitable attitude.

1.1.6 It is also sad to say that many charities have been used by Government, Local Authorities and the NHS to deliver services, but at a cost that is less than “full cost recovery”, requiring charities to utilise their own funds to deliver public services. This also transfers financial and reputational risk, although, of course, it is the charities choice to accept such offers, but many do feel obliged to ensure their clients receive a service.
1.2 What makes charities distinct?

1.2.1 If you are comparing a charity with a non-charity delivering the same work, then the difference lies in what happens to the money. A charity is obliged to re-invest any surplus back into the charity, a company not registered as a charity can pay dividends to individuals or other companies.

1.2.2 Traditionally, people working for a charity have a different ethos, although this is changing, and the charities themselves often have a different culture to a company, perhaps driven by the need for a company to report a profit to encourage further investment, or need to provide dividends. A charity’s need is different, it is to provide benefit to people in need, not paying customers.

1.2.3 Charities have been used to deliver public services for various reasons, but mainly because they actually are different, and perceived by clients as different. They usually have less overhead cost as most are small, they can react to changing circumstances more quickly and they are not bound by the same regulations. However, this advantage is often negated by the commissioning body imposing these same regulations on the charity, creating a larger overhead cost or expecting the charity to absorb this cost.

1.2.4 At the same time Local Authorities and the NHS have set up many spin-off organisations to compete with existing charities for outsourced services, thereby retaining the very services they are outsourcing. Many of these spin-offs have also achieved charitable status, thereby competing with traditional charities for funding from other sources, such as charitable trusts, which are not available to statutory and NHS bodies.

1.3 How does the sector benefit from volunteering?

1.3.1 The main benefit to the sector is financial, as volunteers enable services to be provided either free of charge or at a much lower cost, hence the desire for services currently or previously delivered by the public sector to be outsourced to the charity sector. However, there is a high degree of risk attached to service delivery in line with service level agreements as volunteers cannot be compelled to “work” as and when requested.

1.3.2 There is a perception that volunteers are more committed to a charity because they are choosing to “work” for non-financial reasons. Whilst there may be some truth in this, it devalues the commitment of staff, many of whom work for altruistic reasons, happy to accept a lower salary. Also we now work in an age where many people volunteer because it offers benefit to them, as opposed to purely benefitting others (see “how has the status of volunteers changed”).
1.3.3 Whist utilising volunteers is of tremendous benefit, it does carry a cost which is often not recognised by commissioners or paying clients. The recruitment, training and management of volunteers now requires substantial resources in terms of time and money. Legislation is such that volunteers are treated in much the same way as staff, and this carries a cost. The use of volunteers additionally carries the risk of them deciding to be unavailable at short notice or leaving soon after training, meaning the organisation has had no return on its investment.

1.4 How has the status of volunteers changed?

1.4.1 Many years ago, voluntary work was the domain of retired people or those that had no need to work. This has totally changed, with volunteering being carried out by people of all ages from a spectrum of backgrounds. The reason for volunteering has changed also, in that it is no longer purely altruistic, it is also seen as CV building, a way into employment, a way to receive training and, thankfully, is regarded as attractive to all ages, genders and religions.

1.4.2 In well run organisations, volunteers are, rightly, highly regarded and well looked after, but this can be dependent upon the resources available to devote to volunteer management. Volunteers can be quite demanding, as they hold the “power” in the relationship (they can walk away any time). This can make the management of them more demanding, requiring a more refined set of skills to be utilised by volunteer managers, as opposed to staff managers.

1.5 What challenges do charities face in fulfilling their role in civic society?

1.5.1 Sadly, because it’s a recurring message, our biggest challenge is sourcing sufficient income to deliver services. This means more resources having to be diverted to various fund raising activities, in some cases redirecting resources from service delivery to monitoring, evaluation and collecting data, often for funding bids which are unsuccessful. Whilst appreciating the necessity of this work, it is not what charities were, and are, formed to do.

1.5.2 However, on the positive side this situation has encouraged charities to become more business like and professional in the way they run their business, and consider alternative funding arrangements, to diversify income streams and manage their finances better. On the negative side, many charities have robust conversations about their real mission, particularly are they a charity or a business? As priorities switch to generating income we become more like a commercial operation.
1.5.3 Of course, chasing funding can often lead to mission creep, and it requires a strong Board to stick to a charity’s mission and aims in the face of reductions in income.

1.5.4 Another challenge we face is dealing with increased legislative requirements, e.g. new CQC requirements, employment legislation (TUPE), plus the challenge of keeping up to date with IT and telecomms technology.

1.6 How can these changes be overcome?

1.6.1 There is no easy solution to the financial challenge. Smaller charities can merge with larger ones who are in a stronger position to invest in alternative income streams and withstand a reduction in income. Really small ones can remain very small, functioning on local fundraising and donations, and not be affected by competition from larger charities seeking to work their territory or access their clients, I’m aware that no organisation owns either but, in the past, such competition never existed.

1.6.2 Looking at legislation, it would be good if those making and agreeing legislation recognise that any one rule can have a profound effect on smaller organisations, and take this into account. Remember it is usually only larger charities that have the resources to lobby.

2. Pressures and opportunities

2.1 What opportunities do charities have?

2.1.1 Precious few is the simple answer, unless charities have very substantial reserves or income streams consistently in excess of expenditure. Our markets remain largely unchanged as the reasons people are “in need” remain static (homelessness, addictions, illness, poverty etc).

2.1.2 Pressures do create an environment to innovate and increase efficiency. So opportunities arise to look closely at operations to see where cost savings can be made, to review services to increase business and benefits, and to work smarter.

2.2 Specific pressures relating to particular types of charities?

2.2.1 Two types of charities come to mind, smaller charities between £20k and £500k in turnover, and those that have become entirely dependent upon public sector grants or contracts.
2.2.2 In the case of smaller charities, those below, say, £20k, are more likely to be reliant on local donations and have a higher proportion of volunteers, with no need to expand and the ability to resist requests to serve a wider client base.

2.2.3 Over £500k, perhaps higher but certainly over £1m, resources exist to diversify and carry a higher core cost, staff not directly engaged in service delivery who can apply for funding, provide reports and evidence, and market paid for services. They are also in stronger position to restructure and adapt in the case of funding reductions.

2.2.4 I believe that charities in the turnover band of approximately between £70k and £700k are in a delicate position, having to carry reasonable overhead costs that are a higher ratio of turnover than their larger colleagues, and therefore harder to fund. Charities in the larger band need little in overheads and, in the main, are quite happy to remain small, but the £70k to £700k ones often see their sustainable future as expansion, which can be risky.

3. Innovation

3.1 What more could be done to promote innovation?

3.1.1 Is there a need to promote it more, or is the question really, how can we make charities innovate? The latter obviously not a good question. Within the charity sector there is a school of thought questioning the credibility of those promoting innovation. What are their credentials in advising charities how to run their business? Why the need to innovate if sound, robust systems are already in place and able to address future need? So, if digital innovation is not promoted by government, who might be better positioned to do so, if there is a need? Perhaps the companies selling the products that have successfully implemented a project with a charity? It’s far more acceptable relating the project to your own business if the size and business of said charity relates to your own.

3.2 What barriers are there?

3.2.1 It’s fair to say that smaller charities are often reluctant, or just negative, in this area. The reasons being either digital ignorance or fear, and that resources are focussed on the operational side of the business, not strategic. Good strategic management comes at a price that many smaller charities cannot afford or are concerned about (CEOs on a salary that equates to 30/40% of turnover for instance). So innovation, and in particular, digital, is low on priority lists for these charities.

3.2.2 It’s also fair to say that charities are often innovative by nature, that’s often how they came into existence. Therefore there can be a reluctance to listen to government telling charities to innovate. Unfortunately Local Authorities and CCGs are poor examples of
innovation, particularly to run services at lower cost, therefore charities see papers on subjects such as innovation as “teaching them to suck eggs” by inefficient organisations with no track record of successfully doing themselves. It should also not be forgotten that innovation also requires investment, with charities often not in a position to risk reserves.

3.2.3 Innovation is a subject which is often a requirement of potential funders, and overlooks that some services themselves are innovative and are being delivered successfully after years of modelling, therefore seeking to deliver a service in an innovative way disrespects the time taken to produce an efficient, well run service, actually penalising an organisation, as a funder is implicitly suggesting the service be run in a more innovative way.

4. No response
5. No response
6. No response

7. Resource management

7.1 How can challenges of financial sustainability be overcome?

7.1.1 This is a challenge which can never be eradicated, it has always been with us, simply in a different format. Charities which have been dependent upon public sector funding were never guaranteed it ad infinitum, and the economic environment in which we now exist has brought about a new culture within charities, where the main focus is on income generation, as opposed to managing expenditure.

7.1.2 The more successful charities have evolved into hybrids, becoming both a charity and a company, often a limited one. We still ensure that all “profits” are retained for charitable purposes, but parts of the business have become services or products that people buy, or procured via a contract of some kind. So this part of the business is run along commercial lines, but without profits going out of the business.

7.1.3 The challenges are: adopting a different business model alongside the culture of the organisation; bringing in staff with different skill sets; targeting a different audience; adapting financial and reporting systems; and creating a business development “department”. Perhaps the biggest change is the “different audience”, as traditionally, charities have served people who are in need, i.e. the more vulnerable in our society, who are often not able to pay for services, hence the need for charitable assistance. How do we still provide a service for these people yet, focus attention on those able to pay to generate income? Staff, volunteers and Trustees often debate this topic, asking themselves “are we a charity or a company?” Well, the answer, whether we like it or not, is both in these difficult times.
7.1.4 Funders can also help us with this challenge by recognising that all grants and contracts require a margin to contribute towards overheads, just like any commercial concern, and by being more willing to fund revenue items, as opposed to capital projects.

7.2 Benefits and challenges of commercial contracts?

7.2.1 A contract in many ways is preferable to an agreement, because it usually contains clear requirements and there are clearer indications about its renewal, or not, which are sometimes dependent upon performance, as opposed to a grant which is dependent upon the funder’s current policies and finances. So, a benefit is that it is finite and it will not necessarily be renewed, plus it can be robust, making accountability easier.

7.2.2 The challenges of the contract market are numerous, sometimes daunting though not necessarily unworkable. From a supplier viewpoint many clearly favour larger organisations due to the size of the contract itself, and it can appear that commissioners are manipulating the market, forcing smaller suppliers to merge. The procurement process itself can be very daunting, with the system itself putting smaller charities off, particularly if the task of bidding falls to a multi tasking Chief Executive!!

7.2.3 There has also been a trend, perhaps local, seen recently, where work has gone out to tender where it is clear the commissioners themselves are not clear what they want. Obviously some pre commissioning work can be carried out but there is little incentive for any organisation to help shape the project if they are unlikely to be awarded the contract, there is never any offer to pay for this consultancy work. I would also refer to my earlier point that commissioners now often do not allow sufficient contribution to overheads, particularly if it is envisaged volunteers will be utilised, it really does cost money to recruit, select and manage volunteers.

8. No response

9. Role of government

9.1 What should be the role of local Government?

9.1.1 This certainly seems to vary from Borough to Borough, as well as County to County. There are now instances where charities seem to find themselves in competition with Councils, resulting in them sometimes outsourcing some work as well as retaining it in-house. For example Information and Advice is provided by many charities in Surrey (Citizens Advice, Age UK etc) yet the County Council decided to open up several hubs throughout the County to provide the same service, involving the leasing of buildings and the hiring of staff.
and volunteers. Would the funds available not have been better spent funding existing providers?

9.1.2 Perhaps the role of Government should be to provide services in response to need, according to the money available, in the most cost effective way that achieves maximum results. In my opinion that means using resources already available, as local as possible, certainly at Borough and District level. This can, and should, be done in a way that includes a robust contract with clear requirements and reportables and utilising a simple commissioning process. The commissioner’s role being to ensure the money is spent as specified, and not to become engaged at an operational level, micro managing the project.

9.2 The role of the Charity Commission?

9.2.1 The role of the Charity Commission remains clear in my opinion, one of governance. They should ensure that charities deliver according to their charitable objects, and that their Boards are practicing good governance. To my knowledge they operate in a very light touch way at the moment, relying upon returns and accounts, but a good set of annual accounts does not mean a charity is functioning correctly at a governance level.

9.3 Have these relationships changed?

9.3.1 The relationships between charities and government (at all levels) certainly has, and sadly for the worse. This is partially due to continual changes in personnel, a lot of experienced people have left local government and either not been replaced or replaced with people with no knowledge of the charitable sector (it’s not an easy one to understand), and relationships are between people, not organisations. Whilst I understand this evidence is about government, this last comment is particularly true in the relationships between charities and the NHS, certainly at local level, where the continual changes, the lack of understanding of our sector and the downright inefficiency of commissioners has led to frustration and a desire to avoid working with CCGs if possible.

9.4 Likely impact of local devolution?

9.4.1 If it goes as far as Borough/District level then it will benefit smaller charities, certainly ones without a regional or national presence, as the key to successful service delivery is true partnership working which can only result from knowing the people you are working with, a faceless commissioning and procurement process cannot be as effective.

10. No response

30 August 2016
The Almshouse Association — Written evidence (CHA0056)

Introduction

1. The Almshouse Association is the working name of The National Association of Almshouses, registered charity number 245668. The Association is a membership charity. Our members, to whom we provide advice and support, constitute around 1650 independent almshouse charities. The Association is an official partner of the Charity Commission, meaning there is a formal relationship whereby the Charity Commission recognises the Association as a source of expertise in almshouse matters, and the Commission’s own internal guidance advises its caseworkers to refer to the Association for an expert opinion in certain matters.¹

2. The Association’s membership comprises about 95% of all almshouse charities in the UK, collectively housing around 35,000 residents, usually elderly although some charities are for other particular groups such as ex-armed forces personnel. Almshouse charities are the oldest form of social housing in the country and some have been providing accommodation for centuries to those in need. They are usually run by local volunteer trustees with minimal paid staff, and represent the finest tradition of local people helping their neighbours in need. The almshouse movement is the only part of the social housing sector where wardens are still common, with the related well-documented benefits of wardens in reducing social isolation.

3. 80% of almshouse charities have no more than 20 dwellings. Nearly 35% of almshouse charities provide accommodation in Listed buildings. Over 300 almshouse charities are also Registered Providers of social housing in England, because at some point (possibly decades ago) they had to apply for that status when applying for social housing grant.

4. The issues raised in this submission go primarily to question 2 of the Committee’s Call for Evidence (specific pressures affecting particular types of charity), and question 9 (role of Government, as regards legislation).

PART 1: Issues Affecting The Whole Almshouse Movement

Increasing frailty of residents

5. Almshouse accommodation is for people capable of independent living, albeit sometimes with the help of care packages provided by Social Services. Increasingly, charities are faced with residents who become incapable of independent living, due to dementia. Such residents become a risk to themselves (for example through self-neglect) and possibly their neighbours (for example leaving the gas cooker on with the risk of poisoning or explosion). In such circumstances, the trustees will invariably approach the Almshouse Association for advice. Invariably they report to us that they have approached Social Services to ask them to arrange suitable alternative accommodation for the resident, but have been met with the following response (which

¹ Paula Sussex, Chief Executive of the Charity Commission, alluded to the partnership in her oral evidence to the Select Committee on 5th July 2016.
the trustees put down to lack of resources):

- Either that Social Services will not accept the resident has become incapable of independent living, despite clear evidence to the contrary
- Or that Social Services refuse to take any action unless the charity formally terminates the resident’s licence to live there, which would of course be distressing both for the resident and the charity.

**Almshouse charities being overlooked by legislation**

6. Almshouse charities are routinely overlooked when legislation is drafted and hence frequently suffer unintended consequences. The most pressing examples are set out in this submission.

**Lack of clear statutory definition**

7. The only definitions of almshouse and almshouse charity in primary legislation are circular and hence ambiguous\(^2\). This provides a disincentive to create legislation relating to almshouses, due to uncertainty by civil servants as to which charities would be covered. We **recommend** that the Almshouse Association’s proposed new definition be agreed in collaboration with the Charity Commission, then adopted in all future statutory references to almshouse charities. The Association would be delighted to provide the Select Committee with the text of the proposed definition upon request, but has omitted it here purely in order to keep this submission succinct.

**Equality Act 2010 – s.193 charities exemption**

8. A significant number of almshouse charities have constitutions which restrict the beneficiary class by age, gender (usually women-only), or less commonly by religious belief, in addition to the basic common criterion of being in need. Although most almshouse charities were founded decades or centuries before the Equality Act, these attributes have now become ‘protected characteristics’ under the Act. However, such restrictions are lawful provided the charity can show it satisfies either of two tests under the charities exemption in s.193 of the Act.

9. The test which is most often decisive for almshouse charities is whether the restriction is still ‘a proportionate means of achieving a legitimate aim’. While the Charity Commission takes the view that this test is satisfied if there is still demand for the accommodation from the beneficiary class, because it meets the legitimate aim of satisfying an existing housing need, other government bodies such as the Homes and

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\(^2\) Charities Act 1992, s. 50: “almshouse” means any premises maintained as an almshouse, whether they are called an almshouse or not; and “almshouse charity” means a charity which is authorised under its trusts to maintain almshouses’.

The only other definition of ‘almshouse’ in primary legislation is worded identically: Housing Act 1985 Schedule 1, para 12 (as amended).
Communities Agency are nervous of adopting this approach. Moreover, the HCA interprets its Public Sector Equality Duty under section 149 to mean that, when deciding whether an almshouse charity falls within the section 193 exception, the HCA cannot rely on the Charity Commission’s opinion but must form its own.

10. This approach is paradoxical given that the Charity Commission is the acknowledged source of legal expertise on charities. It also risks creating an undesirable stand-off between the HCA and the Charity Commission, with:

- the HCA asserting that the almshouse charity must amend its charitable purposes to remove the reference to a protected characteristic, because the charity cannot convince the HCA that it falls within the s.193 exception
- the Charity Commission asserting that those charitable purposes cannot lawfully be amended, because in their view the charity falls within the s.193 exception and hence the purposes can still be fulfilled.

11. Even where matters do not reach this impasse, it is very difficult for almshouse charities to know what bodies such as the HCA will accept as ‘a legitimate aim’, or to what level of proof they expect the charity to demonstrate that it falls within the section 193 exception.

12. These problems also reflect widespread lack of certainty in the charity sector about what the exception really means. For example, we note that the English Catholic Care case and the St Margaret’s Children and Family Care Society case, decided by the Scottish Charities Appeals Panel, reached conflicting conclusions about the section 193 exception despite materially identical facts.

13. **Recommendation** - 193 Equality Act 2010 should be amended to the effect that an almshouse charity whose purposes are restricted by reference to a protected characteristic, and which can evidence continuing demand from potential beneficiaries, should be deemed to satisfy the test of ‘a proportionate means of achieving a legitimate aim’.

14. We contend that residents of and applicants to almshouse charities would be adequately protected by the charity law principle that charity trustees must apply to the Charity Commission to have the constitution’s beneficiary class altered, if the charity is failing due to insufficient demand from the existing beneficiary class.

15. In the alternative, we recommend that the relevant Secretary of State should create a new exception to s.149 (which can be done by a Minister of the Crown by secondary legislation under the power in Schedule 18). This exception would be to the effect that every public authority is exempted from its s.149 PSED when deciding whether a particular charity falls within the s.193 exception for charities.

16. In the alternative again, we recommend that s.149 and s.193 be amended to the effect that, when deciding whether a particular charity falls within the s.193 exception, a public
authority is deemed to have satisfied its Public Sector Equality Duty if it relies on the Charity Commission’s opinion.

Charity law and Housing law

17. Almshouse charities feel burdened by the increasing number of examples where housing legislation and associated regulation conflict with charity law, or where it is unclear whether there is such a conflict. This makes it impossible for trustees to be sure they have achieved full compliance, and prevents the HCA from making exceptions for almshouse charities when these situations arise. An example is that the HCA is unsure that almshouse charities automatically fit the statutory definition of ‘social housing’ in the Housing and Regeneration Act 2008, despite such charities being the oldest form of social housing in the country.

PART 2: Almshouse Charities which are not Registered Providers of social housing

Selective Licensing fees (Part 3 Housing Act 2004)

18. This legislation allows local authorities to designate geographical zones which feature statutorily defined types of social deprivation or disorder. The local authority must require each provider of residential accommodation to obtain a licence for each dwelling they provide, and is allowed to charge a fee for the licence. The rationale is that rogue private landlords contribute to the vicious circle in the zone by providing poor facilities, not vetting their tenants and/or turning a blind eye to tenants’ undesirable activities, and leaving voids vacant for unnecessarily long periods. The assumption was no doubt that landlords would pass the cost of the fee on to their tenants.

19. Almshouse charities which are not Registered Providers are accidentally caught by the legislation. Local authorities in urban areas are starting to use these powers, eg in Croydon, the Wirral, parts of East London. Some almshouse charities are facing bills of tens of thousands of pounds to buy licences, even after claiming every possible ‘early bird’ and other discount. However, they do not manifest the behaviour of rogue private landlords which the legislation was aimed at, nor can they pass on costs of the scheme to residents because it would cause financial hardship, which is forbidden by charity law.

20. The problem is even more unfair in cases where the Local Authority designates its entire area as a licensing zone, despite the social deprivation/disorder appearing only within particular streets. This practice is within the letter of the legislation, although in 2015 the Housing Minister wrote to all local authorities criticising it as an unfair.

21. Recommendation – the Secretary of State for Communities and Local Government could create an exception for almshouse charities which are not Registered Providers, by way of secondary legislation, as requested by the Almshouse Association by way of response to DCLG’s consultation on Selective Licensing in 2015 (which has not yet published its conclusions).

National Planning Policy Framework (‘NPPF’): s.106 Town and Country Planning Act

22. Section 106 of the Town and Country Planning Act allows planning authorities to impose obligations on developers when granting planning applications.
23. Some planning authorities interpret the NPPF definition of ‘affordable housing’ to mean that an almshouse charity which is not a Registered Provider of social housing should be treated as if it were not a provider of ‘affordable housing’ for s.106 purposes. Accordingly:

- The planning authority requires the almshouse charity to carry out s.106 obligations where the charity itself is developing new almshouse dwellings. For example, the charity might be required to make a financial contribution towards community infrastructure or ‘affordable housing’. This approach is paradoxical, since the Association would contend that the dwellings which the charity is developing are themselves within the statutory definition of ‘social housing’ in the Housing and Regeneration Act 2008.
- The planning authority maintains that a private developer cannot fulfil a s.106 obligation to provide ‘affordable housing’ by building almshouse properties for the almshouse charity.

24. **Recommendation** – the Secretary of State for Communities and Local Government could clarify the NPPF definition of ‘affordable housing’ to expressly include almshouse charities which are not Registered Providers. The Association made this recommendation to a DCLG consultation on the NPPF which closed on 22 February 2016. The outcome has not yet been published.

**PART 3: Almshouse Charities which are also Registered Providers of social housing**

The Welfare Reform Act obliges Registered Providers to cut ‘rent’ for ‘tenants’ by 1% every year for four years, and cutting from the level of ‘rent’ as at 8 July 2015. ‘Tenant’ is defined so as to include almshouse residents, and ‘rent’ is defined to include the modest contribution towards maintenance of the almshouses which residents are asked to make (‘Weekly Maintenance Contribution’ or ‘WMC’).

In the Autumn 2015 Spending Statement, the government proposed to switch the basis on which Housing Benefit is calculated for residents of Registered Providers of social housing, which would include many almshouse charities. The proposal affects people who become residents after 1 April 2016. The point at which the switch would take effect for such residents is 1 April 2018.

The switch would involve capping such residents’ Housing Benefit at the Local Housing Allowance (‘LHA’) rate which is used for tenants in the private rented sector, and for the first time subjecting pensioners to the practice of paying benefit in relation to only one bedroom even if the dwelling has two bedrooms.

These steps could have a severe impact on the finances of some almshouse Registered Providers, since charity law prevents them from charging a Weekly Maintenance Contribution (‘WMC’) which would put residents in financial hardship.

Early in 2016, the government announced that almshouse charity Registered Providers would be excepted for one year from the Welfare Reform Act and from the switch to LHA, pending a government review into supported and sheltered housing by DCLG and the Department for Work and Pensions. The Association has made the case to DCLG for a
permanent exception for almshouse charities. However, the government has not yet published its conclusions from the review.

2 September 2016
Alzheimer’s Research UK – Written evidence (CHA0074)

Key Points

- The charity sector, separate from Government and other public entities and from private enterprise, holds a unique value in society but also adds value to the work of other sectors.
- Charities are working in new ways to overcome negative public perceptions through ever greater governance measures and greater involvement of their trustees, which can be costly.
- Working with fundraising agencies allows charities to raise necessary donations in the most cost-effective way.
- Trustees should not be restricted in their role by charities or regulators to being just auditors or interrogators, but should be fostered in a way that allows them to drive innovation and provide strategic direction.
- The digital arena provides an enormous opportunity for charities to reach larger audiences and new supporters, but can be risky in a culture of demonstrating the responsible use of donations.
- Government could demonstrate support for charities through improving the tax environment for charities. Mechanisms like the Research and Development Expenditure Credit (RDEC) for research charities, Gift Aid, and VAT should be addressed to better support charities and reduce their costs.

About Alzheimer’s Research UK

1. Alzheimer’s Research UK is the UK’s leading dementia research charity, and the second largest charity funder of dementia research in the world. We are funding £33 million in world-class research at leading universities and research institutions across the UK and to date have funded £61 million in research projects. As research experts, we are committed to finding new ways to diagnose, prevent, treat and cure dementia.

2. Our research strategy is targeted to deliver research that offers the most potential for health benefit. Increased and sustained investment in research is critical to help deliver the treatments and outcomes that will offer hope to people living with dementia and reduce the massive societal and economic burden.

3. Our Defeat Dementia campaign to raise £100 million over five years will make a significant impact on the research landscape, adding capacity and expanding promising avenues of discovery. However, we will not defeat dementia on our own. Organisations and governments across the globe need to share a vision of a world free from dementia, and support policy and funding that fosters the best research environment. The UK has a unique combination of resources in leading scientists and research infrastructure, and in public support for dementia research. With growing support from government, the private sector and charities, this
environment is fertile for progress against this devastating condition.

The Purpose and Impact of Charities

4. Charities are changing the world for the better, whether that be protecting the environment, bringing about social justice or catalysing new medical treatments. The charity sector, separate from Government and other public entities and from private enterprise, holds a unique value in society but also adds value to the work of other sectors. Charities reflect the public will, offering the opportunity to invest in causes about which people are passionate.

5. Alzheimer’s Research UK’s contribution to the dementia research field in the past two decades in which it has funded grants and projects is unique and irreplaceable. We have channelled donations from the public into a total of 596 projects, equating to a combined total of 1,405 years of research. Over 200 new research collaborations have been established as a result of Alzheimer’s Research UK funding, with almost one in five of our grants leading to new partnerships. Almost half of our former PhD students, and almost three quarters of our Fellows, are still working on neurodegenerative diseases today and are quite literally shaping the dementia research field. We host the largest UK dementia research conference, and in 2015 distributed our dementia information leaflets to 9,298 GP surgeries, 13,458 care homes, 1,734 libraries and 139 memory clinics across the UK. Our Dementia Infoline team answered 2,422 enquiries from the public, and there has been an 18% increase in the charity’s media coverage over the past year.

6. Alzheimer’s Research UK is not a tangential figure in the dementia research field, but a genuine driver of progress and innovation. Our grants have resulted in further funding worth £117.3m, meaning many projects we first supported over a decade ago still have a continuing legacy today. For every £1 Alzheimer’s Research UK has invested in research, a further £2.62 has been secured by our researchers from other funders to progress their work.

7. Charities can be a persuasive voice in the UK, respected and authoritative, and should be recognised and supported as experts in combating some of society’s greatest challenges. Charities may be held to a higher standard of practice in their corporate behaviour than the private sector, and be expected to maintain their independence from business or other influencing interests. However, charities like Alzheimer’s Research UK have a deep and lasting impact on the environment in which they operate, and should be recognised for the crucial role they play in society.

Governance and leadership

8. Increasingly, good leadership within charities is achieved by people whose skillsets mirror those at the top of other sectors – the ability to outline the world that the charity looks to create, the confidence and competency to make this a reality and the communications skills to engage potential supporters and beneficiaries with this
vision. These leaders are supported and guided by trustees, who hold the leadership to account, but can also advise on key decisions and help steer the charity going forward.

9. Alzheimer’s Research UK trustees reference the Charity Commission’s general guidance on public benefit when reviewing our aims and objectives and in planning our future activities. In particular, the trustees consider how planned activities will contribute to the aims and objectives they have set. The public benefits from our work, through our world-class research and through our educational materials, website and campaigning to improve the outcomes of dementia research.

10. Trustees should not be restricted in their role by charities or regulators to being just auditors or interrogators, but should be fostered in a way that allows them to drive innovation and provide strategic direction. The contribution of trustees is improved by a diversity of experience as well as diversity in general. Better representation of different sectors and interests among charity trustees can be achieved by better public understanding of what it means to be a trustee to encourage a broader range of people seeking opportunities.

11. Good governance support within charities is critical to enabling trustees and reassuring the public. Trustees need to be given clear terms of reference by charities with guidance from the Charity Commission for their roles and be empowered to receive training, resources, timely updates and support to meet their responsibilities. As scrutiny and regulatory changes place greater pressure on charities, it must be realised by government and the public that this comes at a cost to the charity. At the same time, it reflects a positive move by charities to operate professionally and in accordance with charity commission and other regulatory guidance. This will be especially relevant in light of recent changes to charity regulation from the new Fundraising Regulator (FR), which has emphasised that trustees are ultimately responsible. The sector is at risk of losing out on trustee candidates with important skills based on uncertainty around whether they are sufficiently qualified to fulfil the role.

Accountability

12. Charities are held accountable by multiple entities: by their boards, charity regulators, supporters and the wider public. Charities such as Alzheimer’s Research UK fulfil functions that are either complimentary or supplemental to Government services or initiatives, but do so with only public donations and thus remain independent in our decision-making and strategy.

13. Through our Supporter Charter, we promise to make the best use of every donation we receive, to keep our supporters informed about our work and to treat their information with respect. In order to report back to our supporters on the progress in defeating dementia that they have enabled, we carefully track the development
and outcomes of our research projects to ensure that our supporters’ donations are being put to good use. Our grant-holders report to us with regular updates, allowing us to gain a wealth of information about our research portfolio.

14. Communicating the responsible use of donations occurs through a variety of channels - transparent communications that clearly outline what the charity aims to do, regular updates to trustees including access to vendors and operational oversight, annual reports and financial auditing, and regular reviews of practices and impact. Additional steps can include evaluating trustee performance and diversity to ensure the best possible strategic guidance as well as integrating public input at multiple points in charity activities. These practices are common throughout the sector, and are a rigorous way to genuinely gauge and manage charities.

15. In fundraising practice at Alzheimer’s Research UK, it is important to keep supporters at the heart of everything we do. Our highly successful value exchange programme stems from asking what people need and want from us as dementia research experts; then building on that interaction to fund our work. This approach reaches into our legacy marketing as well – people need and want advice on writing a Will if their partner or parents have dementia – so we offer assistance that is also starting a conversation and deepening our supporter relationship. However, we must also rely on other fundraising approaches, such as direct marketing, calls, and community outreach in order to fund research at our current scale.

16. Working with fundraising agencies allows charities to raise necessary donations in the most cost-effective way. At Alzheimer’s Research UK, staff and trustees both closely manage their work on our behalf to ensure that our supporters have the best possible experience and that vulnerable people are protected. Charities successfully managing vendor relationships are operating with sound business practices and in recognition of the competitive environment in which charities exist.

Pressures and opportunities

17. Charities are increasingly under pressure to demonstrate that they are responsible stewards of public donations and worthy of the public’s trust, and also to do so with fewer resources and a decreased ability to reach new supporters.’ Two thirds of people cite media coverage as the cause of their distrust of charities. The loss of public faith in the sector has had a negative effect on income from all areas, and the unethical behaviour of a few charities and fundraising businesses, combined with national press attention, has threatened to completely overshadow admirable work

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of the sector and the invaluable service it provides for the public good.

18. Pressure to rebuild public trust is magnified because of the current period of economic uncertainty following the EU referendum, increased competition with other charities, and generational changes in attitudes toward giving. Many charities that previously benefitted from government funding have had this income reduced or withdrawn. In order to maintain services, more are seeking income from other fundraising disciplines which in turn has increased competition in the sector as a whole. Trends in modes of giving like legacies (gifts in wills) have shifted away from large gifts for a variety of reasons from more years living in retirement to added health and social care costs. Charity fundraisers have adapted strategies to reflect these shifts, but an economy that is not growing can negatively impact philanthropy across all funding streams.

19. Charities are working in new ways to overcome negative perceptions through ever greater governance measures and greater involvement of their trustees, and potentially even changes to fundraising practices. New regulation around fundraising may improve the experience of the public in interacting with charities, but also make it more difficult for charities that are striving to enact good practices to contact people who may be interested in their work.

20. Charities place themselves under continual pressure to ensure the maximum investment is made into the cause, but in the current competitive market Brand and Marketing are essential components to recruiting donors. For example, introducing and increasing digital capability to engage with online supporters requires investment. The cost of raising funds and improving governance adds to charities’ administrative costs, leaving a smaller percentage of funding available to apply to the cause. Charities will also need to invest in responding to the differences between the new regulator and the previous FRSB as well as implementing compliance with the Fundraising Preference Service (FPS) in 2017. Once in effect, the FPS will negatively affect direct marketing in particular, making it difficult to reach new supporters through this channel.

21. Engaging with the Committee, Government and the new Fundraising Regulator (FR) presents an opportunity to demonstrate to the public that charities possess a culture of responsibility, and more importantly recognising that they are an integral part of society and add value across all sectors. It is also an opportunity to shift public perceptions and expectations of charities to one that balances efforts to reach new supporters with a positive experience for the individual.
Financial Sustainability

22. Alzheimer’s Research UK was not envisioned to exist in perpetuity, but to meet a need that was not being otherwise addressed – namely, the lack of effective treatments for the diseases that cause dementia. It is an ambitious undertaking, but one that we are committed to, as the charity seeks to accelerate drug development and ultimately make itself irrelevant. In 2014/15 the strength of public support for dementia research was demonstrated with a 22% increase in donations, our strongest ever fundraising year, and we were named Fundraising Charity of the Year at the National Fundraising Awards. This significant growth reflects public will to advance research in the dementia field, but we recognise the competitive environment of the sector and the many worthwhile pursuits of charities in the UK and globally. Thus our investments in research are targeted to achieve the greatest impact and improve the lives of people with dementia. This includes response-mode grant funding, as well as commitments to fund major initiatives like our £50 million pledge to the Dementia Research Institute led by the Department of Health and coordinated by the Medical Research Council.

23. Our trustees have examined the major strategic, business and operational risks which the charity faces and confirmed systems have been established to enable regular reports to be produced so that the necessary steps can be taken to reduce those risks. The board is updated by a consultancy to help with forecast modelling figures and to display monthly accounts to enable expenditure on research at the highest rate, without putting Alzheimer’s Research UK at an inappropriate financial risk. These robust measures are in place because our research strategy promotes the pursuit of breakthroughs, which must be insulated against shifts in giving trends and economic uncertainty.

Innovation

24. The digital arena provides an enormous opportunity for charities to reach larger audiences and new supporters. A successful overhaul of our digital donation process led to Alzheimer’s Research UK winning the 2015 Insight in Fundraising Award for Most Powerful Insight from Digital Analysis and we were able to add over 20,000 new supporters through social media channels in the same year. However, when considering innovation, charities are at times in conflict between implementing new ways of working and careful spending of public donations.

25. In the future additional pressure on charities will invariably result in a greater aversion to risk, and investment in innovation can be perilous. Online donations are generally increasing, particularly for small charities, and social media outlets have the potential to connect charities with large communities of potential supporters. Greater learning from the private sector could support charity innovation, given the right culture of support for charitable risk-taking. However, the current climate presents a barrier because of the possibility of failure, particularly that an organisation is not using donations efficiently on proven methods.

The Relationship with Government
26. The relationship of Government to the charity sector should be a positive one – as a result of the Etherington review and Ministerial support for its recommendations, charities are ever more transparent with how they protect vulnerable donors and what activities they undertake when fundraising. Many charities fulfil functions that are either complimentary or supplemental to Government services or initiatives and are an important mechanism to meet gaps or add additional value to Government investment. The Government and Charity Commission are positioned to promote the work of charities and use policy measures to safeguard donors as well as volunteers, fundraising staff and the sector. Emphasis on policing through the Charity Commission and broad powers to act in cases of suspect mismanagement or abuse could be balanced with consistent guidance on how costs associated with governance and accountability can be presented to the public with recognition that administration of good practice can be costly. However, Government is not perceived to be championing the sector by highlighting its vital contribution to society or providing measures of support.

27. It is important to recognise the considerable efforts of charities to raise funds for causes, and the vast majority of the sector does so responsibly and with great attention to good practice. Government could demonstrate support for charities by allowing the greatest possible investment of those funds into their intended purpose and reduce tax and compliance costs whenever possible. While the charity sector operates to meet higher expectations than those for the private sector, at times it is not provided with the same advantages in the tax environment. Issues such as how Gift-Aid is presented to the public and irrecoverable VAT for many charity expenditures have long been raised as areas of concern for the sector. For Alzheimer’s Research UK, the Research and Development Expenditure Credit (RDEC) recovered a significant amount of funding to reinvest in research, but charities have now been excluded from the scheme. The range of type and size of charities requires also that the sector be considered in the broadest possible terms, and that policy decisions not serve to advantage one model or scale of operation over another.

28. Government can also accelerate the work of charities through bridging relationships. For example, the National Institute of Health Research brought together Alzheimer’s Research UK, Alzheimer’s Society and Alzheimer Scotland to create Join Dementia Research – a nationwide clinical trial matching service. This partnership has contributed to a 60% increase in the number of people taking part in dementia research in the UK, with 11,309 new volunteers signing up through the service in 2014/15. Support for the program through the Department of Health has further developed the initiative, which would not have been possible without a culture of support for partnering with charities for greater impact.

29. Charities possess a wealth of expertise that is a valuable resource to Government policy making, and the sectors views should be considered with the status of that given to the private sector. Restrictions on the ability of charities to provide input to
Government decision-making discounts the unique perspective of the sector. Instead, efforts should be made to engage the sector through channels of communication that support the value of charity expertise. During the lead up to the EU referendum, guidance from the Charity Commission governing England and Wales discouraged charities from publicising evidence of the impacts of leaving the EU on their particular interest area. Conversely, guidance from the Office of the Scottish Charity Regulator (OSCR) was broadly supportive of charity campaigning and engagement as charities have a “recognised and important role in our society.”

Leaving the EU could have a significant negative impact on dementia research if important policy areas are not favourably addressed in the negotiation, but Alzheimer’s Research UK was largely restricted from sharing important information with supporters. If the value of charities can instead be recognised, Government is well positioned to explore the ways to better support charities that are demonstrating good practice in their management as well as thought leadership for their cause.

5 September 2016

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Association of Chairs — Written evidence (CHA0156)

About the Association of Chairs

1. The Association of Chairs was launched in October 2013 to provide support and challenge for Chairs of charities and other non-profits and thereby raise the bar of good governance. It was founded by a small group of experienced Chairs, CEOs and governance consultants in recognition of the lack of support for Chairs. AoC provides opportunities for Chairs to come together and learn from their peers; events and resources specifically for Chairs and Vice Chairs; a regular enewsletter; research, insight and analysis.

2. We have achieved a welcome from the sector and a positive response: we now have just under 400 members and a database receiving our e-newsletter of about 3,600. The two main guides we have published so far have been well received and downloaded nearly 6000 times.

Our key points

3. Our comments centre on charity governance and in particular on the role of Chairs. We have focussed our response on the questions where we feel the Chair’s perspective is most needed and where we believe we have the most distinctive contribution to make. First however we want to make some key points that underpin our response.

The non-executive perspective is under-represented

4. A lot of what is written and said is from an executive perspective. This is of course very valuable but it’s important to recognise that in the charity sector primary accountability rests in law with the non-executives. Furthermore the overwhelming majority of charities have no paid staff at all. We need to hear more of the non-executive’s voice and distinctive perspective. Chairs in particular need to be involved in diagnosing problem areas and creating and implementing workable solutions. Lack of resources and organisations representing trustees and Chairs has made it hard for them to have a collective voice.

More recognition and respect for unpaid effort

5. There is a disturbing train of thought that assumes unpaid effort is inferior – an attitude that does not fit well with a sector built on so much voluntary effort. In our experience payment is neither a pre-requisite nor a guarantee of professionalism. More important are the necessary attitude, competence and skills; and access to support and development when needed. Examples of voluntary professionalism are common: RNLI volunteers; CAB advisers; Samaritans and ChildLine counsellors; pro-bono lawyers, voluntary medics. Such successes are built on high standards, high expectations and the necessary support.

6. Of course there are examples of volunteers not performing well, and it’s important to have agreed ways of dealing with such underperformance. Failure to deal with such problems can all too easily undermine respect and make life difficult for both staff and volunteers.
7. In our view it’s important that trustees and Chairs feel valued and recognised as well as held to account. A blame culture is not helpful for recruiting, retaining or getting the best from trustees. Too much of the current tone of debate is harsh and judgmental, and in our view fails to appreciate, and build on the very substantial contribution that most trustees make.

Understanding the distinctive strengths as well as the weaknesses of the sector
8. At its best, this is a sector driven by altruism, self-help and voluntarism. It is able to mobilise millions of volunteers and voluntary donations. This means that approaches that would not be possible or prohibitively expensive in other sectors may be possible in the voluntary sector. Key to that is understanding the complex motivations and values that underpin the sector. In other cases voluntary organisations are addressing issues created by market or public sector failure.

9. It is important that any reforms build on the sector’s unique strengths. So care needs to be taken in translating practice from one sector to another. Transactional approaches that work elsewhere may be profoundly counterproductive. For example, the relationship between motivation and payment is not straightforward. Nor is it clear how the public on whom much of the sector depends for support, will respond. It is also worth acknowledging that governance failures have occurred in all sectors, arguably the most egregiously in the private sector where extrinsic rewards are greatest.

There is no simple quick answer to good governance
10. In our view, there is no single magic bullet that will transform charity governance. The reality is that it takes sustained effort and investment to build good governance. It is a long term endeavour and is as much about culture as it is about resources.

11. We also need to recognise the diversity of our sector and be wary of applying one solution to all. Flexibility and proportionality are needed.

A need to recognise and support the unique role of the Chair
12. Trustees have shared collective responsibility and in law Chairs have no additional powers, unless granted by the governing document. This has led to the Chair’s role and impact being undervalued. In practice however Chairs have greater responsibility and more is expected of them. Chairs play a central role in the effectiveness or otherwise of charity boards. They set the tone and shape the culture. This needs to be acknowledged and appreciated more. It is critical to invest in their training and development. The reality however is of scarcely any investment; not by charities themselves; not by sector bodies, not by donors nor by Government. We say more about this in response to question 5.

In turn, Chairs should recognise their skills gaps and development needs
13. Every Chair should acknowledge the importance of continually developing their skills and be willing to take up development opportunities. They may arrive in their new role with huge experience but not of chairing a charity board. Each will have some skills or
knowledge gaps. Indeed, many of our Chairs tell us that the role is far more demanding and complex, and often lonely, than they anticipated. Peer exchange and networks can help and our work has identified an appetite for that.

The Select Committee’s questions
Question 4 What skills are required to lead and manage a charity?

14. We focus here on the characteristics needed by non-executives for the governance of the organisation as opposed to those needed for executives (or front line volunteers) charged with the day to day management of the organisation.

Knowledge - of legal and regulatory duties, of the organisation and its context
Skills - The Chair has a leadership role (shared with the CEO (where there is one). The skills needed, regardless of the scale and complexity of the organisation, are the ability to
  • ensure the organisation has clear direction and is achieving its aims.
  • harness the skills, experience and energy of the board team to its common purpose
  • ensure a myriad of different relationships are working so that the organisation delivers. The relationships between Chair and CEO and the board and executive are particularly key.
  • steward the decision making process to ensure sound decisions are made. Information is appropriately interrogated, trustees have the necessary understanding e.g. to read a balance sheet, P&L accounts, cashflow.

To achieve this, a Chair needs not just experience and expertise but strong empathy and emotional intelligence. They need to be self-aware and willing to be flexible in their role and relationships.

Behaviours and relationships - time and time again across all sectors failures in governance stem from behaviour and relationships. Trustees need to combine effective challenge and enquiry with support and encouragement. They need to be able to deal constructively with conflict, admit when they don’t know things, be willing to change their mind, to listen and to learn. A skilled Chair encourages these behaviours and steps in when necessary to establish appropriate norms and behaviours and the all-important ingredients of openness, trust and mutual respect. In larger charities a good working relationship between trustees and the senior management team and especially between Chair and CEO is crucial and as the title of our guide to that relationship notes, is a question of balance.

Motivation – Motivations will be diverse, but for trustees and Chairs, it is essential they include altruism and the willingness to put public benefit ahead of your own.

Values - It is important that the Chair and trustees share the core values of the charity.

Question 4a - How can these skills be gained?

15. The key point we would make here is that this is about leadership development and not simply about a publication or a one off training course. Chairs and trustees need access to high quality, structured development activities on an ongoing basis. They need access
to peers and mentors from whom they can learn, and access to practical and accessible support. Opportunities for personal development will also attract people with an appetite to learn. We would certainly be happy to discuss this further with the Committee and share our experience in working with Chairs. We also think we can learn from the support provided in other sectors e.g. to school governors and to university Chairs.

**Question 4b - What support exists to develop these skills within the charitable sector?**

16. Despite there being c 800,000 trustees, quite simply there is not enough support for trustees and Chairs. There is a striking asymmetry between support for paid staff and support for trustees. The table overleaf indicates the relative size and resources of key organisations who support individuals in the sector.

17. NCVO supports organisations rather than individuals- but has useful resources for trustees- notably its Trustees’ handbook, governance e-newsletter and its annual conference for trustees. Others providing support include councils for voluntary service, REACH, Pilotlight, professional advisers such as lawyers and accountants, commercial providers. Some of the federated charities provide training and conferences for trustees and Chairs in their networks.

18. From 2008-2011 Charity Trustee Networks provided services for trustees, before merging into the Small Charities Coalition (SCC) in 2011 as a result of funding pressures. SCC’s support to trustees - includes a part-time governance helpline.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Focus</th>
<th>2014-2015 income</th>
<th>Number of staff</th>
<th>Founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institute of Fundraising</td>
<td>supports fundraising staff</td>
<td>£4.6 million</td>
<td>38 staff</td>
<td>1983</td>
</tr>
<tr>
<td>ACEVO</td>
<td>supports Chief Executives</td>
<td>£1.7 million</td>
<td>20 staff</td>
<td>1987</td>
</tr>
<tr>
<td>Charity Finance Group</td>
<td>supports Charity Finance professionals</td>
<td>£1.8 million</td>
<td>17 staff</td>
<td>1987</td>
</tr>
<tr>
<td>Small Charities Coalition</td>
<td>Support charities with income of under £1 million (staff and trustees)</td>
<td>£0.15 million</td>
<td>3 staff</td>
<td>2008</td>
</tr>
<tr>
<td>Hon Treasurers Forum</td>
<td>Support Hon Treasurers (trustees)</td>
<td>£0.03 million</td>
<td>Part time CEO</td>
<td>2004</td>
</tr>
<tr>
<td>Association of Chairs</td>
<td>Support Chairs and Vice Chairs of charities and non-profits (trustees)</td>
<td>£0.1 million</td>
<td>1.2 staff</td>
<td>Launched as a charity in 2013</td>
</tr>
</tbody>
</table>

*Source: Charity Commission register and charities’ annual reports.*
19. We formed the AoC in October 2013, in recognition of the lack of support for Chairs—despite the critical role they play in ensuring charities are well led and governed. We undertake research, produce resources such as publications and enewsletters, hold events for Chair and Vice Chairs and a forum for exchange of views.

20. Even with our limited resources we have made contact with around 1600 Chairs—but we know that is a mere 1% of the chairing community. We are keen to reach more Chairs and to work with them to provide the support they find most helpful. The early feedback from our members is encouraging: 85% would recommend membership to a Chair they know; 74% said they have new knowledge that helps them be a better Chair or Vice Chair; 64% reported that they are doing things differently because of the Association of Chairs.

21. In February we surveyed Chairs we are in contact with, a sample likely to be more engaged than is typical. Among the 360 who responded, good governance is a high priority, but they have little support. Apart from publications, fewer than 50% had accessed any kind of development support in the last 12 months. Many restricted themselves to free sources of support. 37% had accessed training—two-thirds were funded by the organisation, a third paid for themselves. 16% had had mentoring or coaching. Just 38% of Chairs received expenses. 46% of boards have no budget for board development; only 19% had a formal allocated budget; while the balance address development on a case by case basis. Perhaps more surprisingly only 34% of Chairs had had an induction, arguably the most basic form of support.

22. 54% of Chairs spend 4 days or more per month on their chairing role.

23. We would be happy to share more details of our survey with the Committee. We think it is the first research among Chairs for many years.

5. **What role should trustees play in the performance and effectiveness of a charity?**

24. We endorse the principles set out in the Voluntary Sector Code of Good Governance. For us key aspects are:

   **Being stewards of the charity’s mission and values** Trustees have a key role to play in ensuring that the charity is steadfastly focused on the best interests of current and future beneficiaries. They need to be fearless but not reckless in their pursuit of the charity’s purposes. It is important that they put the charitable purpose above both their personal interests and those of the charity.

   **Accountability** Trustees are accountable for the charity’s performance to those they serve, those who fund them, to the regulator and to wider society. They safeguard the charity’s reputation and it is important they are respected. They hold the executive to account. In our view their largely voluntary status is one of the sector’s distinctive features that enhances their moral authority.

   **Long term vision and strategy** A key role of non-executives is to take a longer term and more strategic perspective; and to balance opportunity and risk.
**Agreeing boundaries with staff** A key task is agreeing appropriate boundaries between trustees and staff. Where that boundary is drawn will vary according to the changing circumstances of each organisation and needs constant attention. See also our comments in paragraph 15.

**5a- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**

25. We suggest a dual track approach is needed

i) **Addressing poor governance.** Governance risk can be reduced significantly simply by addressing gaps in knowledge and basic ‘must do’s. Investment in simple training and support could reduce some of the most common governance issues. This training should focus on Chairs to begin with but be rolled out to all trustees. At the very least all trustees should have an induction.

ii) **Achieving good governance is a more complex task.** It requires an ongoing structured approach and opportunities to learn from peers and mentors. It should focus on more subtle factors that affect good governance like culture and behaviour e.g. team building, dealing with disagreement and conflict. This too should first be focused on Chairs given their central role.

Over time we need to create clear expectations and a framework of standards. We are happy to discuss this with the Committee.

**5b- What, if any, changes might this mean for current arrangements?**

26. As noted earlier we do not believe there is a simple single solution. A range of things are needed. We propose:

27. **Recognition of the important role of Chair.** Trustees have shared collective responsibility and in law Chairs have no additional powers, unless granted by the governing document. In practice however Chairs have greater responsibility and more is expected of them in leading the board, and managing the relationship with the chief executive (where there is one). This needs to be acknowledged and appreciated more, and dedicated support and guidance provided.

28. **Every Chair should have access to an induction and information about the role**

29. **Access to a national programme of support and training.** We need to learn lessons from other areas for example the programme of support provided to school governors or to NHS boards. Well-structured and well-resourced central resources have been used very effectively to train and support these key roles and improve performance.

30. **A cultural shift in expectations of and by Chairs** Every Chair should acknowledge the importance of continually developing their skills and be willing to take up development opportunities. Similarly charities, funders and the Charity Commission should all expect
to be investing in and supporting Chairs and trustees, and providing developmental opportunities.

31. More research to understand what helps Chairs be effective. We believe it is important to act based on evidence of what works. However, research into what helps Chairs be effective is limited. Given this, we favour an action research model, testing out through programmes what is wanted and taken up by Chairs and what difference it makes to their practice.

Question 9 What should the role of Government (and the Charity Commission) with the sector?

32. The role of Government. We believe the Government should have an ongoing commitment to providing support to trustees and Chairs in particular, directly, through the Charity Commission and through support bodies. This should include an overarching role to promote the value to the individual and society of the trustee role and encourage wider take-up – the more so after the negative publicity of the last 12-18 months.

33. The role of the Charity Commission. The Charity Commission does not provide any specific guidance or support for Chairs and we believe it should, something which umbrellas bodies including ourselves could then build on. We understand the Charity Commission does not currently maintain a list of Chairs that it could use for mailing or emailing – it would be helpful if it did.

34. If we are to support Chairs effectively it is important we understand them. We think it would be helpful if the Charity Commission could do more to enable its data to be more easily used for research for the benefit of the sector.

35. The Commission’s preventative role, in our opinion, is as important as its policing role. Promoting public trust and confidence is best achieved by ensuring that all charities are well informed and well equipped to achieve good governance, rather than being a tough regulator, even though that is required from time to time. The Commission produces a considerable amount of advice and guidance and it would be good to better understand how that is used, what impact it has and how it can reach more widely into every corner of the sector.

8 September 2016
Association of Charitable Foundations (ACF) — Written evidence (CHA0082)

Association of Charitable Foundations (ACF) is the membership association for foundations and charitable grant-making trusts in the United Kingdom. ACF’s priorities include enabling trusts and foundations to achieve good practice in grant-making and helping them to be effective in the many ways that they use their resources, including their investments for charitable purposes.

There are approximately 12,000 independent grant-making foundations in the UK – defined as those deriving their income from private philanthropic sources either as ongoing income or in the form of gifts that are invested as endowments. According to ACF’s Giving Trends 2015 Report, in 2014 the Top 300 independent foundations were responsible for 90% of all giving by the sector, with annual grants of £2.4bn. The top 20, each making grants of over £20m, account for nearly half of all grants made by independent foundations.

Beyond their financial contribution, foundations make a distinctive contribution to civil society. Unlike public sector funding bodies, foundations can take risks, offer long-term support and back causes that may otherwise struggle to gain attention. Crucially, unlike most other types of funder, charitable foundations can work independently of political time-scales, free from short-term market cycles, and counter to received wisdoms, allowing them to respond creatively to immediate need as well as take a long-term approach.

This written evidence supplements oral evidence given on behalf of ACF by the organisation’s Head of Policy, Richard Jenkins, on 12 July 2016 [Evidence Session No. 3 Questions 30-40]. It aims to refer the Committee to research and other data referred to in our oral submission, as well as adding context for to the points made in the course of the earlier session.

1. The Committee seek views on the pressures and opportunities faced by charities. The following paragraphs augment our oral evidence by outlining the pressures faced by foundations and we give examples of the issues faced by charities based on the intelligence that foundations gain as funders.

Pressures and opportunities faced by Foundations

2. With cuts in public sector funding for the voluntary sector increasing, the contribution of independent foundations to civil society is becoming more and more recognised. In 2014 the top 300 independent foundations were responsible for 90% of all giving by the sector, with annual grants of £2.4bn. By comparison, in the same year, central government grant-making to the voluntary sector amounted to £2.2bn. NCVO research concludes that foundations will not be able to make up the deficit of funding for charities predicted by continued falls in public sector grant-making. So, while endowed foundations maintained spending rates in the years immediately following the credit crunch, charities experiencing falls in other forms of funding will not be able to make up the difference through increased funding from foundations.

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5 According to ACF’s Giving Trends 2015 Report,
6 A Financial Sustainability Review (2015)
7 see For Good and Not For Keeps, ACF, 2013
addition, when economic downturns result in greater demand for their support, this is just the time when pressure grows on foundations’ own resources which are so frequently dependent on investment performance. Indeed, while foundation giving has risen over recent years in actual terms, it has still not exceeded its pre-2008 levels in real terms.8

3. In this context, foundations’ opportunities are our ability to change focus and adapt quickly to changing circumstances.

4. For example, foundations have been refreshing their strategy. Some have increased their levels of giving by engaging with philanthropists directly9. Others have been developing new theories of change to help them work collaboratively with each other and across sectors. Foundations have also been at the forefront of growing the social investment market, providing over £100m of risk capital to social purpose organisations and increasing numbers of foundations have been exploring social investment and other innovative ways of using their investments to achieve their charitable objectives10

5. At the same time, foundations’ networks and relationships with the grant-holders and others provide an opportunity in themselves, in providing intelligence on how the charities, voluntary groups and social enterprises are experiencing a changing financial environment, and informing grant-making practice and wider discussion.

Foundation feedback on the pressures faced by the charities they fund

6. For example, research published by Garfield Weston Foundation11 commissioned following a drop in grant-applications, concluded that ‘Most organisations had confidence that their professional resources were sufficient for introducing change in the funding mix, including culture (74%), knowledge and information (79%), skills and expertise (78%) and contacts and networks (80%), but overwhelmingly felt they lacked the financial and human resources. The Catch 22 is that ability to change does not get ‘road-tested’ if organisations do not spend on it, and they cannot make a well-evidenced case to funders for investment.’ So, organisations have lacked the capacity even to seek the support they know they need.

Enhancing performance and effectiveness

7. When it comes to tackling these deficits in financial and human resources, recent research from Institute for Voluntary Action Research (IVAR) – again based on the experience of those in receipt of foundation funding - makes it clear that there are no simple answers, quick fixes or ‘one size fits all’ solutions, but that in order to seize the opportunities that there are, charities need flexible funding arrangements that guarantee strategic capacity and the means to redesign operations mid-stream in order to maintain unwavering focus on mission12. Successive research by IVAR has richly documented both the experience of particularly small

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8 Giving Trends, ACF, 2015
9 For example like the 500 year old Cripplegate Foundation’s project, Islington Giving
10 Research Briefing: charitable trusts and foundations’ engagement in the social investment market, ACF, 2013 and Intentional Investing, ACF 2015
11 Foundation An insight into the future of charity funding in the North East, 2014
12 See for example, Turning a corner: Transition in the voluntary sector, IVAR, 2014
and local charities, and the challenges facing funders attempting to support them in ways which enhance their performance and effectiveness. One repeated finding was that 

**organisations need ‘thinking space’** to know how best to adapt in constantly changing circumstances. This relates very closely to the Committee’s concerns around **Governance and Leadership**.

8. Foundations are responding to these concerns, in part by looking at how their funding sits alongside that of others, by collaborating across sectors, \(^{13}\) funding field work\(^ {14}\) and adopting, formally or informally, a ‘funder plus’ model which offers practical capacity-building support alongside other forms of funding.\(^ {15}\)

9. Finally, in our oral session we highlighted the ways in which foundations work to monitor and demonstrate impact. ACF is a member of, and helps lead, the **Inspiring Impact**, a UK-wide collaborative programme, working with the charity sector to help organisations know what to measure and how to measure. While monitoring impact can be key, to ensure that foundation money is well spent, there is increased questioning among funders of the assumptions behind some thinking on impact measurement. In particular, where organisations are tackling multiple disadvantages or supporting work in densely collaborative structures, the imposition of outcome measures can distort action in the same way excessive targets provided perverse incentives in public sector management. In such contexts a ‘relational’ model works better where foundations remain supportively engaged with organisations throughout the lifetime of the grant.\(^ {16}\)

**Accountability and the role of the Commission**

10. Accountability in the charity sector is complex, with trustees balancing the needs of beneficiaries with other stakeholder interests including donors, commissioners, and increasingly investors. For the long term health of the sector, trustees must maintain their ultimate accountability to their charitable objectives, and not the interests of particular groups, individuals or even public opinion. At the same time, public concerns about the health and integrity of the charity sector have grown, and it is the particular role of the Charity Commission to maintain public trust and confidence in the sector itself. This situation has created a number of complexities to which we feel it is important to draw the Committee’s attention.

\(^{13}\) One example is the work of Calouste Gulbenkian Foundation, Big Lottery and Collaborate on **A New Funding Ecology - A Blueprint for Action** which provides a framework for how collaborative working can help funders better support civil society.

\(^{14}\) IVAR’s own work is in part supported by a collaboration of foundations (Barrow Cadbury Trust, Esmée Fairbairn Foundation, Lankelly Chase Foundation and the Tudor Trust) who are concerned about the capacity issues facing the VCSE

\(^{15}\) Lloyds Bank Foundation (England and Wales) is one example of a funding programme specifically designed to fund organisational improvements, development of areas such as leadership and governance, improved systems and demonstrating outcomes.

\(^{16}\) For further evidence on this thinking contact Dr Toby Lowe, Senior Research Associate, Newcastle University Business School
11. In the first place we note that these heightened concerns about the governance of charities have arisen at a time when the Charity Commission itself has had to deal with significant reductions in its funding. It has reconfigured itself to focus on its core regulatory, or ‘policing’ function. That is logical and we are supportive, however we believe this reconfiguration comes with significant unintended cost that could itself further undermine public trust and confidence in charities.

12. As an umbrella body, we register the loss of the Commission’s advice and support functions, through receiving increased calls from the public, members and advisors seeking technical information. While online Charity Commission guidance is well-crafted, it cannot fill the gap left by staff at the end of a telephone – and we doubt that all previous enquiries are now being directed to umbrella bodies. In this context, as well as being a loss to charities, the loss of its support function has robbed the Commission itself of a key lever, essential to the delivery of its task, because such accessible advice amounted to preventative action. Now if trustees are in doubt about what to do, in the absence of a Commission hotline, they may choose instead the wrong path rather than seek other sources of advice.

13. The Commission’s greater activity in cracking down on non-compliance, while essential and appropriate in individual cases, itself must be carefully explained because, devoid of any attempt to provide the bigger picture and to inform and educate the public about the wider charitable environment, it again risks affecting public confidence.

14. We would draw attention to the analogous success of community-oriented policing models, which focus on building ties and working closely with community members, taking a proactive approach to addressing the concerns and fears of the communities themselves. A regulator that emphasises only enforcement action risks undermining the very trust and confidence it seeks to preserve, much in the same way that press and media attention focusing on crime statistics exaggerates fear of crime in the public mind in a way that corrodes social trust.

15. To conclude, in order to fulfil its statutory remit, it seems essential to us that the regulator’s policing function sits alongside active outreach and even advocacy on behalf of those members of the sector whose good reputation suffers because of the bad behaviour of a small minority. The public therefore needs more context about and understanding of charities; and the Charity Commission, as part of its statutory duty, needs to think more about how it contextualises its regulatory role so that the public can be better educated about the charity sector and trustees aided in their tasks.

Conclusion

16. This submission is additional to the points raised in our oral evidence session. A list of the main publications is contained in footnotes attached and we are happy to provide further information and assistance if required.

*5 September 2016*
1. **Association of Charitable Foundations (ACF)** is the membership association for foundations and charitable grant-making trusts in the United Kingdom. ACF’s priorities include enabling trusts and foundations to achieve good practice in grant-making and helping them to be effective in the many ways that they use their resources, including their investments for charitable purposes.

**Summary**

2. Charitable foundations provide nearly 10% of UK charity sector income through their grant-making. In turn, 70% of charitable foundations rely on investment income to fuel their activity. These ‘endowments’ constitute an enduring asset for civil society, with trustees obliged to use them and the returns they produce solely for their charitable objectives. The Charity Commission and other UK regulators hold trustees to account for what they spend, but only trustees can decide on how much to devote year on year to achieve their charitable objectives and over what timescale.

3. Typically foundations spend between 3 - 4% of the portfolio’s value each year. A mandatory payout rate however could have a negative impact on foundations’ spending power in the long-term. For example, evidence shows that too high a rate could permanently erode some endowments, forcing charities out of business within a generation. Too low a rate might decrease the ambition of current high spenders. In addition, a strict spending rate could prevent foundations from using their endowments creatively – say for social investment. There can therefore be no ‘one size fits all’ solution. Charity trustees should independently decide what is best in their circumstances.

**How charities are financed**

4. While most charities support their work through a combination of fundraising, donations, appeals, membership fees or earned income from their work or services, £3.8bn, nearly 10%, of income to UK charities, comes through grants from trusts and foundations. Among trusts and foundations themselves, 70% rely upon income from investments to provide the funds they disburse in support of their charitable aims.

**What is a charitable endowment?**

5. One of the notable successes of such ‘charitable endowments’, as these investments are often known, is that donations that have been invested by trustees have enabled charities to continue doing good across generations and in some cases for centuries. For example Cripplegate Foundation, established in 1500, still gives grants of £2m each year to the most disadvantaged in Islington, including £500k from its historic endowment valued at £34m, because their longevity and experience gives confidence to today’s donors. Foundation

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17 NCVO Almanac records that UK charities received £3.8bn in grants from foundations out of a total income of £43.8bn. Available at: https://data.ncvo.org.uk/a/almanac

endowments are therefore an enduring source of support for civil society, and trustees must use both the underlying investments and the revenue they produce entirely for the charity’s mission. Careful stewardship of endowments allows foundations, many of which have existed for hundreds of years, to take risks, offer long-term support and back causes that otherwise may struggle to gain attention.

6. Cripplegate’s endowment is permanent, meaning that trustees must only spend the investment income each year thus preserving the capital across generations. However, unless the trust deed states explicitly that endowments are to be held in perpetuity, trustees of charitable endowments have discretion to manage them in ways that best meet their charitable objectives. For some, this means ‘spending out’ the endowment within a specific time period. Other boards may judge that their endowment constitutes a unique asset for their cause or beneficiary group and will aim to manage the charity’s investments to enable them to go on doing good into the foreseeable future, often by striking an equitable balance of spending between generations.

7. Whatever their aim, trustees are obliged to use their endowment and all its income solely to advance their charitable aims, and they must therefore be prudent stewards of their charity’s endowment – not least in choosing the right spending rate.

Is there an appropriate spending rate for all foundations?

8. Research carried out by ACF in 2013 revealed that charities relying on investment returns to fund their activity over the long-term adopted a range of spending rates, with the most frequent approach being to spend between 3-4% of the value of the portfolio each year\textsuperscript{19}. While some charities spent lower, many charities – most notably older, larger charities – spent above this rate.

9. The research also revealed that even apparently modest adjustments on spending rates can have a dramatic impact on the trust’s funding base, so that higher spending rates can draw heavily on an endowment over time, greatly increasing the probability that it will be completely eroded. [See Figure 1] For example, the analysis shows that a spending rate of 4% could substantially increase the probability of permanent reductions in the portfolio size – and therefore spending power – of an organisation to just 32% over 30 years, compared with a 52% risk of seeing it shrink if spending were set at 3% per annum over the same period. Nonetheless, the report concluded that in many cases, if trustees felt it appropriate, it could be right for them to take an ‘open ended’ approach to the trust’s longevity rather than always aiming for preservation.

10. Trustees therefore have careful decisions to make, and must take them in light of their particular context. Preservation of the endowment can never be an end in itself, and can only be pursued if it serves the charitable purposes.

\textsuperscript{19} Jenkins, R. & Rogers, K. (2013) \textit{For Good and Not for Keeps}, London: ACF, p.4
11. It is therefore possible to see the effect of imposing an inappropriately high mandatory payout rate on charitable endowments, especially in today’s ‘low-return’ investment environment. The above modeling on the impact of different rates on the value of an endowment, and therefore a charity’s spending power, shows that enforcing too high a mandatory spending rate could put many funders out of business in a generation, particularly when faced with volatile markets that can see the value of the endowment rise and fall dramatically. While for some funders ‘spending out’ may be the right thing to do, for others it would fetter their independence in balancing the needs of today’s generation with those of the future.

12. The largest grant-makers that rely on investment returns to fund their activity generally spend at a fairly high rate – an average of over 4%\textsuperscript{20} – perhaps due to the greater confidence their resources give them in weathering economic storms (e.g. after the credit crunch 85\% of funders maintained or even raised their spending rates, despite falling equity returns\textsuperscript{21}). A mandatory rate that was therefore set too low could cause these trustee boards to reduce their spending. As 20 large foundations account for half of all grant-making from the sector\textsuperscript{22}, just a few foundations reducing their spend rates could noticeably deflate the overall grant spend, even if much smaller foundations simultaneously increased theirs. In addition, a mandatory fixed spending rate could limit trustees’ discretion to use their endowments creatively – for example using part of it to make social investments.

\textsuperscript{20} Jenkins, R. & Rogers, K. (2013) \textit{For Good and Not for Keeps}, London: ACF, p.35
\textsuperscript{21} Jenkins, R. & Rogers, K. (2013) \textit{For Good and Not for Keeps}, London: ACF, p.4
\textsuperscript{22} Pharoah, C., Jenkins, R., Goddard, K. & Walker, C. (2016) \textit{Giving Trends 2016}, London: ACF/CGAP@Cass/Pears Foundation, p.4
13. While a 5% payout ‘rule’ exists in the United States\textsuperscript{23}, it is not possible to draw comparisons between the US and UK sectors. The US context is very different - with more new donors than here in the UK putting money into foundations, enabling a seemingly higher spending rate, as well as much more expansive allowances around what counts as charitable spend. It is also worth noting that Canada has a mandatory payout rate of 3.5\%\textsuperscript{24}.

\textbf{Are foundations accountable and regulated for what they spend?}

14. In a word, yes. Unlike the US, the UK has specialist charity regulators which have the know-how to challenge endowed charities on spending rates based on a context specific judgement call. The current regulatory regime only allows trustees to add to the capital value of the endowment if they have good reason to do so and can justify this, and we know that the Charity Commission has challenged endowed charities about spending rates in the past and continues to do so.

\textbf{Conclusion}

15. Any mandatory rate inevitably neglects the importance of individual charitable mission, organisations’ attitude to longevity and changing market conditions. A one-size-fits-all approach is unlikely to have a net positive effect on spend over the long term, and in the process would risk hampering foundations in their mission to use their resources in the service of supporting others, whether by preserving social good that is under threat or catalysing it where it is absent. Only trustees can decide how best to use their resources, and their independence to do so must be preserved. The current regulatory system already holds them to account.

\textit{05 October 2016}


\textsuperscript{24} Canada Revenue Agency (2016) \textit{Disbursement quota calculation} Available at: \url{http://www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/spndng/clclb-eng.html}
Summary

- Medical research charities matter to the economy, health service and patients. In 2015, medical research charities:
  - Invested over £1.4 billion of research funding in the UK; more than other public funders of medical research in the UK including the Medical Research Council (MRC) and the National Institute for Health Research (NIHR);
  - Funded around a quarter of non-commercial research in the NHS; and
  - Funded the salaries of over 15,000 researchers in the UK.

- The UK has a uniquely vibrant medical research sector, within which charities are a key strand. More than 90% of AMRC members' UK funding goes to universities (including university hospital trusts) supporting basic, translational and clinical research.

- Government support is vital to enable medical research charities to continue to be able to fund research in UK universities; the charity research support element of Government funding must be increased in real terms.

- Medical research charities are using innovative approaches to fund research through ‘Passion Capital’ (Venture Philanthropy).

- Financial pressures on medical research charities have increased in recent years as a result of a number of Government policies. Unlike businesses, charities cannot pass these increased running costs onto consumers and are therefore left with less of the money donated by supporters with which to spend on meeting their charitable objectives.

- Exiting the European Union presents a significant challenge for medical research charities. UK participation and co-ordination with the EU not only benefits the progression of medical research in the UK, it adds considerable value to medical research across the EU. Without the UK’s involvement, medical research capacity within the EU may be diminished.

AMRC and our response

AMRC represents 133 of the leading medical research charities funding research in the UK. Our members fund research focussed on the needs of patients for better treatments, therapies and interventions designed to improve the quality of life and ultimately prevent or cure their condition. As such, a focus on the patient perspective and patient voice is central to all of our work.

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25 For a list of our 133 members see our website: http://www.amrc.org.uk/our-members/member-directory
We welcome the establishment of the Committee and its focus on the charitable sector in the UK. Our submission presents some overall points about the medical research charity sector, as well as details of some policy issues that affect the sector specifically.

We are members of the National Council for Voluntary Organisations (NCVO) and point towards their submission for information that relates to the functions and operations of charities in general. For detailed information on the perspectives of medical research charities, we would like to signpost submissions from several of our member charities:

- Alzheimer’s Research UK;
- The Brain Tumour Charity;
- The British Heart Foundation;
- Cancer Research UK; and
- The Wellcome Trust.

We lend our support to their responses. These submissions present perspectives from a range of sizes of medical research charities with different funding models. Issues affect different charities in different ways and to differing extents.

Why medical research charities matter

Medical research charities exist because the public choose to donate their money to support research to develop new treatments and cures; 6.4 million people donated in a typical month in 2015.

In 2015, AMRC member charities:

- Invested over £1.4 billion of research funding in the UK; more than other public funders of medical research in the UK including the Medical Research Council (MRC) and the National Institute for Health Research (NIHR);
- Funded around a quarter of non-commercial research in the NHS;
- Funded the salaries of over 15,000 researchers in the UK.

Our members fund research focussed on the needs of patients for better treatments, therapies and interventions designed to improve the quality of life and ultimately prevent or cure their condition. This includes funding for rare and neglected diseases, for which other public funding is limited. Research we fund also attracts follow-on inward investment to the UK from across the globe.

AMRC members represent charities big and small, covering acute and chronic conditions, both rare and common. We provide authoritative advice on what matters to patients and the public.

The investment in research made in the UK by medical research charities drives innovation and productivity by:

- Generating and funding research ideas, evidence and knowledge on issues of importance to patients and the public;
Contributing to research capacity via skills and human capital;
Funding infrastructure; and
Informing public policy and guidelines.

Every £1 of public or charity investment in medical research generates annual monetised health benefits of 10p in perpetuity and additional spill over benefits.26

Medical research charity funding is complementary to, and dependent on, funding from the public sector. Partnerships between academia, charities and industry ensure that the outputs of funded medical research are translated into outcomes that benefit UK patients, population and the economy.

Medical research is a unique ecosystem

Medical research charities are a vital part of the mix of partners that work together to create the UK’s vibrant medical research sector. Funding from different actors in the ecosystem – including public and private sources - is interdependent and additive. The funding that our member charities contribute to medical research is vital.

Charities choose to fund research in UK universities because of the world-class research environments they provide. More than 90% of AMRC members' UK research expenditure goes to universities (including university hospital trusts) supporting basic, translational and clinical research.

Innovative approaches to funding medical research

As a vital part of the UK’s unique ecosystem for medical research, charities seek innovative approaches towards medical research in a variety of ways. Bringing together different actors within the sector can foster such an approach; the different perspectives within the public and private sectors can lead to the generation of novel ideas that can be translated into new treatments.

The pharmaceutical industry is moving towards a more collaborative model, where research is undertaken in academic labs, and there is stronger pre-competitive collaboration on areas of mutual interest. Charities are responding to this and acting to encourage this trend by promote research that will develop new treatments in their condition areas.

‘Passion Capital’, or Venture Philanthropy, are new ways of funding research being explored by AMRC and our members, where charities take on the role of effective and equal partners in the commercialisation of research.

Passion Capital

Passion Capital describes a different approach to funding. Possible approaches vary from simply widening the field of those eligible to apply for current grant schemes to include

26 http://www.kcl.ac.uk/sspp/policy-institute/publications/SpilloversFINAL.pdf
small companies, to participating in a large ‘fund of funds’ backing commercialisation of products for different indications.

In all cases, Passion Capital uses the methods and rewards of financial investing to support innovative research. It brings together the passion of a charity looking to support vital research that will change lives, with the due diligence and active management of an investment approach. Charities that use the Passion Capital approach fund research in universities, spin outs and companies, often via developing partnerships of funders, researchers and companies.

Below are some examples of innovative ‘Passion Capital’ approaches to medical research undertaken by our members.

**Widening the field of eligible researchers – funding SME’s**

Action on Hearing Loss is funding a runs three-year project aiming to develop a new method to treat sudden hearing loss. The project, carried out between Otomagnetics LLC and the University of Maryland, USA, is one of three early stage projects funded under charity’s Translational Research Initiative for Hearing, a funding scheme that aims to turn research discoveries into potential new treatments for hearing loss and tinnitus.

JDRF - the type 1 diabetes charity - has a long history of supporting research in SME’s. It recently partnered with Arecor Ltd, a UK-based leading formulation technology company focused on innovative methods of delivering treatments. This partnership aims to bring JDRF closer to their mission is to accelerate life-changing breakthroughs to cure, prevent and treat type 1 diabetes and its complications.

**Developing industry partnerships to encourage innovative academic research**

The Breast Cancer Now Catalyst Programme brings together world-leading researchers and the pharmaceutical company Pfizer to pool resources so that innovative breast cancer treatments can be developed. Researchers will be granted unprecedented access to at least 14 of Pfizer’s existing drugs and drugs currently in development. Pfizer has also committed $15 million – USD (around £10 million) in funding over three years to ensure this research can happen.

**Supporting a venture capital-like fund**

The Dementia Discovery Fund is a ground-breaking new initiative designed to speed up the discovery and development of new treatments for dementia. It is a collaboration between the Department of Health, Alzheimer's Research UK and 7 world-leading pharmaceutical companies including Biogen, GSK, Johnson & Johnson, Lilly, Pfizer and Takeda. The fund is managed by SV Life Sciences, a venture capital firm, providing the investment management skills needed for a Passion Capital project to meet its goals and succeed financially. This is a world first for dementia research and the fund has now invested in Alector LLC and Gen2 Neuroscience Ltd as its first two investments for novel dementia treatments.

**Supporting innovative approaches**

To help support charities to use innovative funding approaches, charities would welcome a supportive environment to encourage adoption of such models. One way in which Government could support innovative public and private sector collaboration in charity
research institutions would be to **change VAT regulations on buildings used for charitable purposes**.

Co-location of charities and businesses can be a key enabler to progressing partnerships between charities and the private sector and encouraging permeability across the public-private interface. EU legislation means that construction of a new building in the UK is normally subject to 20% VAT. However, charities are exempt from this if a building is used ‘solely for a relevant charitable purpose’ such as grant-funded innovative research.\(^\text{27}\) Up to 5% of commercial activity is allowed; this status has to be maintained for the first ten years following completion of the building’s construction. This allowance is often nearly exhausted by commercial activities such as catering and facilities, thereby inhibiting the scale of any industry-charity collaboration onsite, or incurring significant additional VAT costs to a charity.

### VAT on buildings: a barrier to innovation

The criteria for applicability of the zero-rate VAT for charity buildings have been a challenge in the development of the new Francis Crick Institute in London. The Crick is a flagship biomedical discovery institute founded by six of the UK’s most successful scientific and academic organisations including two AMRC members - Cancer Research UK (CRUK) and the Wellcome Trust.

The Francis Crick Institute did not pay VAT on the development of their new £650m state-of-the-art building, set to be fully operational in early 2017. Thus, for the next ten years they will have to be extremely careful to ensure that income does not exceed a set percentage of turnover. This places restrictions on what they can do in the translation realm. Since translating discoveries into innovative treatments is one of their five strategic missions, this is a real barrier, and a potential lost opportunity for the UK.

### Financial pressures affecting the medical research charity sector

In recent years, medical research charities have experienced financial pressures as a result of a number of government policies. These have included changes to pension regulations and national insurance increases. These are important policies that the sector supports. However, unlike businesses, charities do not pass these increased running costs onto consumers and are therefore left with less of the money donated by supporters with which to spend on meeting their charitable objectives.

Other financial pressures arising from Government policies are listed below, with potential solutions.

1. **Flat rate of Government support for medical research funding**

   The UK has a unique system of supporting university research termed the dual support system. The nature of this system is a key factor underpinning the UK’s excellence in

research. It enables universities to undertake research with a variety of partners, such as charities and Research Councils, through the Government’s system of block grants for universities.

The charity research support element – termed the Charity Research Support Fund (CRSF) in England - of Government funding for university research is crucial. It enables charities to invest donors’ money directly into research, and not the general running costs (indirect costs, estates costs, support services) of university research. **Government support is therefore vital to enable medical research charities to continue to be able to fund research in UK universities.**

However, since 2010 the CRSF has been fixed at £198 million per annum; a real-terms decrease. Thus, support through the CRSF has decreased from 26p for every £1 of charity investment in 2010, to 22p per £1 invested in 2014.\(^{28}\) We are concerned about the pressure which decreased government support for charities is putting on UK institutions and the potential knock-on implications this is having for how charities’ grants are perceived by researchers. **Government should protect the Charity Research Support Fund (CRSF) in real terms, with a view to increasing this fund in line with charity investment.**

2. **Apprenticeship Levy**

The introduction of the Apprenticeship Levy will affect larger medical research charities. The sector welcomes the Government’s ambition to develop skills and opportunities for young people. However we are concerned that a number of overarching challenges may prevent medical research charities from making the most of the levy and contributing to the realisation of the Government’s goals; in particular the expiry date attached to funds paid into the levy by charities.

A number of practical steps could be taken to enable medical research charities to successfully implement the levy:

- Introduce flexibility in the date of expiry of funds paid into the levy by charities; more time will give medical research charities that are not traditional employers of apprentices the opportunity to identify skills gaps and implement apprenticeship schemes that will truly deliver the skills needed in their sector;
- Ring-fence charity sector contributions to the levy to ensure that money from expired funds is not lost from the sector;
- Allow flexibility in the definition of an apprentice to include charity volunteers, on whom charities are commonly reliant; and
- Explore level 8 (PhD level) apprenticeship standards in order to complement and further the investment in skills that research charities already make in funding PhD studentships.

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\(^{28}\) Figures taken from HEFCE’s annual funding allocations and the excel spreadsheets outlining QR charity support funding awarded in 2010 and 2013, and actual charity investment made in those years (detailed 2012/13 and 2015/16 tables)

http://www.hefce.ac.uk/funding/annallocns/
3. Research and Development Expenditure Credit (RDEC)

In recognition of the value of investment in research and development (R&D) to UK productivity, the Government developed the Research and Development Expenditure Credit (RDEC). This credit, introduced in 2013, aims to boost productivity in the UK by encouraging more R&D within large companies. Charities are not able to benefit from this, though a loophole was open for charities to benefit from the tax credit for a short period. Charities should be able to benefit from the tax credit, as private sector does. All investment in medical science and research drives economic productivity. Every £1 of public or charity investment in medical research generates annual monetised health benefits of 10p in perpetuity and additional spill over benefits.29

Exiting the EU: the impact on medical research charities

The decision to leave the European Union presents a significant challenge for the UK’s research and innovation sector in terms of research funding, opportunities for collaboration, mobility of talented researchers and regulations relating to research and medicines. To ensure the best possible outcome for medical research from exiting the UK, Government should ensure the following:

- **The UK medical research community has continued access to EU funding programmes and collaborative opportunities to progress the discovery and understanding of diseases and ill-health.**
  - In just a three year period (2012-2014) researchers in the AMRC impact dataset were awarded £407m of further funding from the EU. This amounts to nearly a third of all funding leveraged by medical research charity investment during that time.
  - An example of EU funds being leveraged by UK charity investment is provided by the Samantha Dickson Brain Cancer Unit within UCL. A £1.5 million investment by The Brain Tumour Charity leveraged £1.7 million of further funding from the European Research Council (ERC).
  - In 2014, UK researchers received EU grants worth over £190 million to investigate of rare diseases; this was more EU funding than for either cancer or brain disorders.

- **Maintaining the current ease with which researchers, and those involved in medical research including healthcare professionals, technicians and patients, are able to travel and work across the EU and UK.**
  - Medical research in the UK is part of a global endeavour. There is global competition for high-quality research talent. 40% of all living British Nobel Prize winners were born overseas.

- **Maintain the UK’s contributions to the regulatory bodies and frameworks, ensuring the UK maintains its position as a leader in life sciences.**

29[http://www.kcl.ac.uk/sspp/policy-institute/publications/SpilloversFINAL.pdf](http://www.kcl.ac.uk/sspp/policy-institute/publications/SpilloversFINAL.pdf)
The UK, through the Medicines & Healthcare products Regulatory Agency (MHRA), plays a significant role in supporting and providing capacity for the European Medicines Agency (EMA).

The EMA’s location in London and its close relationship with the MHRA helps support the thriving life sciences sector in the UK which enables UK patients to have early access to innovative and new treatments, along with clinical trials.

12 September 2016
The purpose of charities

1. **What is the role and purpose of charities in civic society in England and Wales?**

   - How has this changed?
   - What makes them distinct from other organisations doing similar work?
   - What role can charities play in community cohesion and civic action?
   - How does the sector benefit from volunteering?
   - How has the status of volunteers changed?
   - What challenges do charities face in trying to fulfil their role in civic society?
   - How can these challenges be overcome?

1. We acknowledge the short time scale in submitting evidence and AVM (Association of Volunteer Managers) would like to offer to facilitate a round table on the important issue of how the sector benefits from volunteering and how the status of volunteers has changed, especially in relation to volunteering and volunteer management.

2. One of the challenges charities face as regards to their relationship with civic society is that the creation of that civic society is not their primary purpose. Charities have their own individual charitable objectives which are around addressing a specific cause or meeting a need. Whilst their existence and actions irrefutably contribute to a vibrant civic society, the fact that they do so is a by-product and therefore the role that they play in building community cohesion may be secondary (unless, of course, their charitable objectives state that this is their purpose). Also, whilst charities – and the voluntary and community sector – are still the centre of civic society the boundaries have blurred, most obviously with regards to social enterprises.

3. It is also important to recognise that people who give their time, talents, energy and experience do so in many ways – including to a variety of sectors as well as to none. For example, people volunteer with the statutory sector such as NHS, schools and prisons and also as individuals informally or within a whole host of small community groups that aren’t registered as charities. We feel that it would be useful for the Select Committee to take these into account.

4. With regards to the statutory sector there is increasing emphasis of commitment to people powered models of support within Health and Social Care, as demonstrated through NHS England’s 5 year forward view (FYFV) emphasis on ‘harnessing the renewable energy’ of communities and volunteers. This leads to an expectation of deeper engagement and indeed co-production with the voluntary and community sector, and this is exemplified through the development of key principles for working in partnership with people and communities as part of the FYFV, one of which is involving wider sectors as key partners and another which recognises volunteering and social action as key enablers.

5. Whilst this renewed commitment to partnership working with the voluntary and community sector and individuals is a positive opportunity it is not without its challenges. Importantly there needs to be clarity around the role for volunteering in delivering public
services. Volunteers play a significant and complementary role to paid professionals, but the boundaries between staff and volunteers are becoming increasingly blurred and we need to ensure that employment legislation and unions take this into account. Examples include Ambulance Service First Responders, Special Constables and individuals within communities voluntarily taking on the responsibility for running libraries.

6. The vast majority of charities are small organisations running a volunteer programme at a local level and AVM is concerned that this consultation will not reach those individuals who may have an interest and valid things to say on this issue but have neither the capacity nor the resource to do so. Many of these are doing an amazing job keeping things going on the ground and may have volunteer management as an add-on to their jobs - and indeed may be doing so in a voluntary capacity.

7. In order to support these local charities and enable them to contribute effectively to civic action it is vital to think about how volunteering infrastructure can be developed and strengthened. Evidence shows that without appropriate infrastructure and support helping to build efficacy, community action can dissipate rather than proliferate.

8. The narrative of the impact and value of volunteering needs to be more developed and articulated. The UK has a vibrant volunteer involving culture and this is something to recognise and celebrate. Civic Society tends to be overly concerned with numbers and worry if volunteering numbers don’t increase. Overall they have remained about the same for the past decade and this is something in itself to remember and be proud of. We are now slightly better at acknowledging volunteering as something of real value - to people who use a service, the individual themselves, the organisation, and society as a whole. The Chief Economist of the Bank of England, has calculated that the economic benefit of volunteering could exceed £50 billion a year and he has spoken about capturing it within the country’s GDP; which is an interesting proposal. Whilst the economic value of volunteering is clearly immense, as big as the energy sector, the social value and impact of volunteering is even greater. Volunteers, as members of a local community, can help address needs which statutory services or organisations on their own cannot reach, particularly in regards to community cohesion.

9. Volunteering demographics and expectations are changing – with older volunteers now coming from the baby-boomer generation more used to being self-directive and in charge then their dutiful stalwart parents. Younger people are being encouraged to play a more active part of society. Both groups are keen to shape their experiences rather than just be told what to do and may have different motivations for wanting to give their time from traditional.

10. These changes come at a time when it seems that the perception of volunteering encompassing the wide spectrum of ways and reasons for giving time, energy and experience is narrowing to that of a work-based model; one which aids employability. This is concerning as it detracts from the very real value of volunteering both for volunteers and the wider community and civic society; but also gives less scope for supporting and understanding those who are giving their time freely through participation, activism or as a leisure activity. Understanding volunteering through these perspectives can aid volunteer
managers to see their roles as facilitators and enablers of community engagement – which will address the needs of those who want to co-create their roles and design their own involvement, as identified above.

11. That said, wellbeing is increasingly being viewed as a measurement of development within society and ‘Giving’ is promoted as a way to increase wellbeing and happiness. This is positive for volunteering in general - but also as a way to support the wellbeing of those who use and engage with services that charities offer, through enabling them to be able to give time.

12. One of the major challenges facing the sector is that around the digital world we now live in. Life is increasingly more digital and people expect to be able to be engaged with through this medium and to have the opportunity to give their time via a technology platform. There are great examples of volunteering roles being offered online, such as peer-peer support, but it has been a challenge for charities to adapt more easily to this. Often it is the smaller community charities that may not have the brain-space to re-think creatively about how to engage people and may therefore struggle to inspire.

13. Volunteer management is the golden thread that ensures volunteers are engaged, supported and motivated and ensuring that volunteer management is recognised as a skill and a valued profession – as fundraising is – is essential to the continued flourishing of volunteers and indeed volunteering. At a time when charities have been under scrutiny, the value and impact which volunteers bring, extending the reach and resources and developing services and interventions which resonate within the community, really matters. The outstanding contribution that volunteers make is only possible through the support of outstanding volunteer managers. Empowering volunteer managers to feel confident in their abilities and knowledgeable about how to work with an individual’s and community’s existing assets is essential. AVM exists in order to do this; to increase the impact of volunteer management through offering learning days, peer support and giving a voice to everyone who manages volunteers. We would like to see this call for evidence as an opportunity to tell the story of the power of volunteering and celebrate the fact that Britain has an amazing volunteer base.

4 September 2016
Barnardo’s welcomes the House of Lords Select Committee’s inquiry into the issues affecting the charity sector and is pleased to submit the following observations as evidence.

Introduction

Barnardo’s is the largest children’s charity in the United Kingdom. This year, we mark the 150th anniversary of Thomas Barnardo’s arrival in London and the start of his pioneering work with destitute children.

There has been enormous social, economic and legal change during that time and our charity has changed with it – last year, Barnardo’s supported 248,000 children, young people, parents and carers across over 990 services spread all across the UK. But in changing, we also continue to live up to the ideals of the visionary whose name the charity still bears. These are set out as part of our Basis and Values and go to the core of all that we do:

- Respecting the unique worth of every person
- Encouraging people to fulfil their potential
- Working with hope
- Exercising responsible stewardship.

We know that in every community around the UK there are still children and families who need our help. Every year, we aim to support more children and young people to achieve better outcomes so this year, we have launched an ambitious new strategy which aims, over the next decade, to focus on achieving stronger families, safer childhoods, and more positive futures for young people.

Our submission

We have noted the evidence that the National Council of Voluntary Organisations (NCVO) has already presented to the Committee on the role and purpose of charities in the 21st century. We do not propose to add to this broader debate in our submission but rather to focus on areas where we believe Barnardo’s experience and track record in delivering high quality services for children, young people and families means we can add value to the Committee’s deliberations. The areas are:

- The skills required to lead and manage a charity,
- The role trustees should play in the performance and effectiveness of a charity,
- The main pressures currently faced by charities and their impact as well as current opportunities, and
- The challenges to financial sustainability and efficient resource and risk management in the sector.
Barnardo’s — Written evidence (CHA0172)

Given the high volume of submissions we expect the Committee will have received through its call for evidence, we have deliberately kept our observations at a high level.

**Summary**

The key points this submission makes are:

- **on governance**
  - for charities that wish to develop their governance practice it could be very helpful to have a sector-wide evaluation framework, standard or code for good governance, as appropriate to the size of organisation, to use as a benchmark
  - it would also be helpful to have a defined, regularly updated core governance knowledge base for trustees, again possibly related to the size and needs of their charity
  - the Committee should consider the impact of increased regulatory and required oversight pressures on the attractiveness of volunteering to be a trustee and the ability of boards to attract sufficiently diverse volunteer trustees

- **on resources and financial sustainability**
  - current commissioning models are trending towards onerous and often non-negotiable contracts. This makes the burden on charities fulfilling these roles greater, exposes them to further risk and potentially reduces choice
  - commissioners should recognise the benefits of other models of service provision, particularly partnerships, in terms of outcomes and promoting innovation

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**The skills required to lead and manage a charity and the role trustees should play in the performance and effectiveness of a charity**

Barnardo’s believes that strong and effective governance, together with expert and experienced management, is essential to ensuring the charity’s long term sustainability. In the last three years, the Barnardo’s Board has completely reviewed all its governance structures and processes and introduced a Governance Committee specifically to lead the Board’s ongoing efforts to develop further its governance practice.

As a result of our work and experience in this area, there are some aspects of governance where we believe some additional clarity and sector leadership would provide significant benefits to charity trustees in carrying out their role, and potentially help further develop the standards of governance within the sector. These areas are:

1. **An external governance evaluation framework.**

   The development and maintenance of a sector-wide evaluation framework, standard or code of good governance practice in charities would be useful for charity boards to use
as a regular external assurance of the effectiveness of their work.

There is extensive general guidance to charities on the elements that make up effective governance. The Charity Commission’s ‘The Hallmarks of an Effective Charity’ (CC10, July 2008), is a useful general checklist. Industry bodies such as ACEVO and NCVO publish guidance too. But in the absence of a clear, standardised evaluation framework the only options open to charities to assess their governance performance seem to be to develop self-appraisal templates and processes and/or, if there are sufficient resources, to commission a law firm or external consultant, each with their own bespoke method, to provide external validation of a Board’s work.

The existence of accepted external evaluation criteria could potentially make it easier for all charities, and relevant stakeholders, to choose to assess progress against these criteria and identify areas for development, provided it did not add a further administrative burden.

We note the difficulty in drafting such a standard to encompass the wide variety of charities of differing sizes, objectives and complexity and there may be different solutions appropriate to different sizes and structures of charities but we believe that it would be a very useful piece of work.

2. **A defined, core knowledge base required for charity trustees.**

Regardless of the size of their charity, trustees carry full legal responsibility for its operation. Recent governance challenges in the sector suggest it might be useful to have clear up-to-date core governance training available on a sector wide basis for those who might want it to help equip trustees, chairs and officers with the governance tools needed to run their charity effectively, efficiently and sustainably.

There is increasing regulatory pressure on charity Boards. A large number of regulatory guidelines have been revised or reissued since 2014 including those on general trusteeship, safeguarding children and young people, public benefit, charity reserves, serious incident reporting and the requirement for Board oversight and scrutiny of campaigning and fundraising, as well as major new requirements for financial disclosure.

Barnardo’s, like many other charities, relies on its own induction and ongoing training programme for trustees and on external providers who run courses. The Charity Commission guidance on the essential trustee (CC3, July 2015) sets out in general and legal terms what trustees are expected to know, but it is left to individual Boards and trustees to work out how to implement these requirements and keep up to date, and to assure themselves that their trustees are adequately briefed.

It would be very useful to have this knowledge better defined at sector level and accessible so that all trustees can make use of it directly in learning about their sector and their role and its requirements. (In other areas of voluntary public service such learning is not assumed. Magistrates for example have a systematic and mandated
training programme, assessments and regular updates of their knowledge to equip them to carry out their roles (https://www.magistrates-association.org.uk/training-magistrates).

Providing trustees with the option of relevant, regular and consistent core training defined at a sector level might help ensure a consistent knowledge base for those in a governance role. This too should be appropriate to the scale and complexity of the organization.

3. **The nature of trusteeship.** In addition to the two proposals above, we suggest that an additional area for deliberation for the Select Committee is around the nature of trusteeship and how best to encourage volunteers to apply and to broaden diverse representation in all its forms on charity boards.

The voluntary nature of much charity work, not least in Board governance roles, is a key part of the sector’s ethos and the majority of trustees are not paid for the role. All Barnardo’s trustees are unpaid volunteers. However, there may now be a number of factors that potentially inhibit people volunteering to join the sector in future. Issues within the sector over the past year have brought the tension between the voluntary nature of trusteeship and potential personal liability into greater focus. Increasing time demands to carry out the extensive oversight now required also means that highly competent people who may be in full time employment can struggle to devote the time required, however committed and passionate they are.

The volunteer nature of trusteeship may also make it more difficult to make boards diverse and representative. For example, it may exclude those who cannot afford to take on the role, even though they would have much to give. Paying trustees may potentially help Boards increase their diversity and be more representative of the communities they serve, though of course it may also risk undermining the ethos of voluntary trusteeship.

**Pressures, opportunities and challenges to financial sustainability and risk management**

Barnardo’s works directly with nearly a quarter of a million children, young people and families in services delivered across the UK. These services (£171m of revenue from statutory sources in the last year) have been developed working in close partnership with national and local commissioners, based around the needs of target communities. In doing so, we have amassed considerable experience of and expertise in commissioning and procurement in the public sector, growing steadily over the past ten years both the range and number of services we offer.

Barnardo’s supports this work with a regional and UK-wide infrastructure which allows us to share knowledge, ‘scale up’ good practice and achieve significant economies of scale.

We are proud to have proved ourselves, time and again, to be a service provider who truly delivers results for some of the most vulnerable people in our society. However, in doing so, we also never lose sight of the fact that we remain, first and foremost, a charity. Our charitable objects and our Basis and Values – especially our commitment to exercise
responsible stewardship – impose limits on what we can and cannot do (as do the regulatory frameworks to which we are subject). This is particularly acute when it comes to decisions relating to the financial sustainability of and management of risk for the charity. We should not – and would never – mistake ourselves for a private sector enterprise.

These challenges are not, of course, new. Nearly ten years ago, Barnardo’s submitted evidence to a Public Administration Select Committee inquiry on commissioning from the voluntary sector where we highlighted, among other things, the need to remove unnecessary burdens from contracts; greater use of standard contract terms and longer minimum length of contracts to improve stability. However, today, Barnardo’s is seeing these issues not only persist but also become increasingly challenging in the current, tough commissioning climate.

There is, in particular, an emerging trend for more onerous and, in many cases, non-negotiable contractual terms which increase operational and financial risk to third sector providers. These terms, unsurprisingly, drawn up in favour of the public body, do not recognise the particular challenges that they represent to charities who might wish to bid to deliver a service.

This places responsible charities such as Barnardo’s in an invidious position where we have a track record of delivering quality services or believe we have a strong offer to improve services to children, young people and their families, but are unable to accept what we feel are overly onerous terms.

There have been a number of examples in recent months where, after lengthy deliberation, Barnardo’s has chosen either not to bid for work or has submitted qualified bids including for services which we currently deliver – solely because of onerous contractual terms.

As a result, we believe that, because of this approach, commissioners are not benefiting from the widest possible range of bids and, in our sector, risk doing a disservice to children, young people and families by unnecessarily restricting the number and range of potential suppliers.

It should be stressed that, in common with other charities, we fully accept the need for fair and reasonable sharing of risk between contracting parties. However, our recent experience has been that contractual terms are increasingly being presented as a non-negotiable part of the commissioning process. Potential bidders, such as Barnardo’s, rarely have the opportunity to present their own terms, or to negotiate terms.

Another unintended consequence of this trend in commissioning is that Barnardo’s has seen in recent years a steep increase in the amount of time and resources needed to review and, if possible, negotiate contractual terms. This represents a significant drain on both management and trustee time, diverting a charity from its core activity of providing services.
In particular, full legal review of increasingly onerous contractual terms is often required. Although Barnardo’s is of a size to have some capability in this respect, the complex nature of some contractual issues still requires us to incur additional legal costs.

There is, of course, a need to secure value for money for the public purse and to enable a fair and competitive process; however, this must be balanced against the huge amount of resource – not only Barnardo’s but the multiple other organisations involved - in the commissioning process.

**Effective strategic partnering**

While addressing the issues set out above is critically important, Barnardo’s also believes there is scope for an entirely different approach to commissioning – often described as ‘strategic partnering’ and one which some of the most forward-thinking commissioners are now adopting.

Replacing an adversarial approach between purchaser and supplier with a competitive dialogue approach and then working with potential providers to design solutions until a delivery agreement is reached will, we believe, deliver better results for children, young people and families.

The traditional transactional relationship between commissioner and provider has tended to lead public bodies to narrowly prescribe what is to be delivered in ever greater detail, in part as a way of managing the risk of not directly delivering the service. In short, commissioners commission the answer (detailed service specification) rather than the question (how can the outcomes we seek best be achieved?) This stifles opportunities for the innovation that is so greatly needed at a time of decreasing resources and increasing demand.

However, strategic partnering enables the provider partner to be involved in early discussions about defining the problem or need of a particular group of children and families; working with the local authority and other stakeholders to consider how systems and process can be re-designed or services delivered to achieve better outcomes; and consideration of what resources can be collectively pooled in an area to that end.

This approach enables local authorities to maximise the benefits of working with the voluntary sector, including the ability to act as an external ‘change agent’, contribute insight and the voice of the communities they support (some of whom may be less willing to engage with the statutory sector) and potentially additional resources.

That is why, in our new ten year strategy, we make clear that we want to work in partnership with commissioners as strategic partners to improve the quality of their children’s services provision.

However, based on our experience, there remains a concern that legacy commissioning practice and behaviours are not yet fully adjusting to take advantage of the strategic partnering concept. Barnardo’s believes that this means there is a risk that the
opportunities for genuine dialogue and co-design and production that are integral to true strategic partnering are being missed. The fundamental challenge however is one of the underlying culture and attitude of local authorities towards the voluntary sector. We have seen, for example in our partnership with Newport City Council, how strong leadership and vision can overcome these issues and lead to better outcomes for more children.

*September 30 2016*
Dear Sir/Madam

Evidence to the Select Committee on Charities

The Barrow Cadbury Trust contributed to and strongly endorses the Association of Charitable Foundations (ACF) response and are resubmitting it here to add our weight to its contents.

Yours faithfully

Sara Llewelin
Chief Executive
Barrow Cadbury Trust

5 September 2016

[For ACF’S full response see: Association of Charitable Foundations — Written evidence (CHA0082)]
Battersea Dogs and Cats Home – Written evidence (CHA0143)

Battersea Dogs and Cats Home – Written evidence (CHA0143)

This evidence is submitted by Battersea Dogs & Cats Home. Established in 1860, Battersea aims to never turn away a dog or cat in need of help. We reunite lost dogs and cats with their owners; when we can’t do this we care for them until new owners can be found for them

Executive summary

Battersea Dogs & Cats Home welcomes the creation of the Lords Select Committee on Charities, which is timely given the recent media scrutiny of charities, and the important report on sustaining the charity sector which will follow this initial call for evidence. As one of the largest animal charities operating in and around the capital, Battersea performs a crucial social function in caring for London’s lost and abandoned dogs. We are well positioned to comment on the issues raised in this report, and have set out our views on the challenges facing the sector below. These include:

- Charities are professional organisations performing crucial social functions, which could in many cases not be performed so well without volunteers
- There is considerable focus and pressure on charity fundraising since recent concerning events, which have eroded public trust to a degree
- Charities are responding to challenges by innovating in the way they raise money, carry out their services and share best practice with partners
- In many sectors, charities are now the home of significant expert opinion. Public policy would therefore be less effective without their important input.

Our remarks have been restricted to those questions on which Battersea has a direct experience or interest.

1. **About Battersea**
   Battersea exists to improve conditions for cats and dogs. We accept any breed of animal, at any age, including dogs or cats with serious medical and behavioural problems. Our expert teams give our animals the chance of a fresh start in a happy new home. There is no time limit on how long an animal stays with us until the perfect new owners are found. The Home cares for over 8,000 animals each year.

2. Battersea is committed to best practice, continuous learning and improvement is enshrined in everything that we do, our strategic plans and underpinned by our values of care, excellence, determination, respect, integrity and commitment. For Battersea and other charities to continue their vital work the charity sector must be sustainable. We are therefore very pleased to contribute to this inquiry.

3. **The purpose of charities**
   What is the role and purpose of charities in civic society in England and Wales?
The key purpose of charities is to enhance our society. To do this they perform a wide variety of social functions and fill gaps in the social system by delivering services that the public and private sectors do not or cannot provide. Research from the Charity Commission has also highlighted that the public strongly feels that charities play an important role in society. Charities are a distinct sector separate from the public or private sector, and should have a unique and valuable perspective of what needs their users have and how best to meet those needs.

4. In the case of Battersea we prove care for over 8,000 unwanted or abandoned dogs and cats a year. Without rescue and rehoming centres like ours Local Authorities would need to find the operational and financial capacity to handle all unwanted or lost animals. The experience of Local Authorities and the reduction in their animal services in recent years suggests that they would not welcome this extra operational burden.

5. **How has the role of charities changed?**
   The role of charities and the way they operate has changed over time. Expectations on charities from stakeholders such as the public and government have increased as charities have been expanding the work they do and the services they provide. This has led to the increased professionalisation of the sector as a whole.

6. **What role can charities play in community cohesion and civic action?**
   By having a good understanding of the communities around them and by having expert staff and volunteers, charities can play a substantial role in community cohesion and bring local people together. In Battersea’s case anti-social behaviour with dogs is a huge societal concern and it is therefore Battersea’s role is to share the benefit of the 150 years we have spent at the sharp end of animal welfare. We do this through our community work educating the public about responsible pet ownership in workshops and visits to prisons, community groups and at other events.

7. **How does the sector benefit from volunteering?**
   Many charities rely on volunteers in order to carry out their vital work. At Battersea we have over 1,000 volunteers who donate their time in almost every area of the Home. They are a critical part of our team without which we could not maintain the quality and range of services that we do for our animals.

8. Volunteers provide a unique contribution to charities and the sector benefits from the skills and commitment of individuals who collectively turn their individual volunteering into a social movement. This is something which the sector relies upon to fulfil its charitable purpose and meet its strategic aims. Some organisations in our sector are entirely volunteer-led, providing society with crucial front line services which would not be possible for the organisation to deliver without volunteers.

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9. Across Battersea’s three centres we are supported by over 1,200 volunteers and foster carers who undertake a variety of roles. In 2015 volunteers dedicated over 73,000 hours to Battersea. This demonstrates the vital role that volunteers play in helping Battersea operate and achieve our aims.

10. **How has the status of volunteers changed?**

The societal status of volunteering has changed in recent years from the image of volunteers “performing a moral duty” to being increasingly regarded as high value individuals. From charities to major projects such as the London 2012 Olympics and Paralympics, volunteers are a sought-after and deservedly respected group of people. Volunteers are also more aware of their opportunities and make informed choices about which organisations they donate their time and in what roles. Volunteering has also increasingly become a way individuals can gain experience. The status of volunteers in the UK is continuing to grow and this change has put the relationship between charities and volunteers on a more equal footing.

11. **Pressures and opportunities**

   **What are the main pressures faced by charities currently, and what impact have these had?**

12. **Financial pressures**

Two significant pressures faced by charities are those on resources and reserves. Charities face the challenge of having enough time and resources to carry out their vital work. Reliance on fundraising is a significant pressure faced by many charities. The regulatory uncertainty around fundraising means that it is a challenge for charities to plan their work in the long term without being certain of the resources they will have. A tension with this is that in order to grow their work many charities need to invest in their fundraising activities.

13. In addition to the challenge of the fundraising landscape some charities provide public services which have previously been the responsibility of government. This change of role has meant that many charities have had to increase their capacity for frontline service provision. However, cutbacks in public spending and increased demand for services have meant that some charities have faced the challenge of providing more while traditional funding sources are contracting, and some charities may have to use their reserves to cover these costs. Although this measure may work in the short term it is not sustainable for charities to do in the long-term. For charities driven by a passion for their cause, in our case the care of unwanted dogs and cats, constricting the services we provide is severely unpalatable, as animals still need our help.

14. These financial pressures which charities face can mean that in future charities will need to focus their efforts and target specific opportunities to achieve their aims. Like the wider charity sector, animal welfare is a crowded marketplace and animal charities tend to be reliant on donations from the public, given their limited government funding and limited support from companies and charitable trusts.
15. **Public trust**
Another area of pressure for charities relates to public perception and trust. Research published by the Charity Commission shows that public trust in charities has fallen in recent years.\(^{31}\) Therefore, charities that are largely dependent on public fundraising could find developing and maintaining new supporters increasingly challenging in the current environment. However, engaging with the public and finding new supporters are essential activities which allow charities not only to contribute the vital work they do but also to expand it.

16. Battersea has invested significantly in growing our fundraising activity in order to increase our capacity to do more work. This has been met with great support from the public. Our experience has shown that if we are proactive in talking about what we do, then the public will support us.

17. Charities may also face resourcing pressures around forthcoming data protection requirements. Data protection requirements are vital, and it is imperative that the public trust charities with their details and are aware of how their information may be used. In line with legislation changes due to be implemented in 2018 charities must increase their capacity and ability to record donor consent and communication preferences which they will need to resource for in addition to delivering their key services.

18. A further area of pressure is the challenging environment of accountability, discussed below.

19. **What opportunities do charities have in the current environment?**
In the current environment, and in response to pressures and challenges highlighted earlier, charities can have the opportunity to improve and strengthen the work they do. This can be achieved by deepening their engagement with their supporters which can lead to supporters becoming more involved with the charity. An example of this would be previous donors becoming volunteers. Charities can build more stable, longer lasting relationships with their supporters over time which ultimately leads to growth in support for the charity.

20. In response to the current challenging fundraising environment, charities have need and the opportunity to innovate in their fundraising methods. This can include trialling new activities and developing new ideas to increase their support. However, to successfully innovate charities must ensure that they dedicate adequate time and resources to these activities. The risk then is that only the bigger charities will have the resource to innovate and try new ways of working.

21. Changes being implemented to the sector following the review of charity fundraising, such as the introduction of new measures and regulatory bodies, also provide the opportunity for charities to improve their practices and rebuild public trust.

22. **Innovation**

   **How do charities seek to innovate, particularly in the digital arena?**

   Innovation in fundraising can help drive charities forward by finding new ways to engage supporters. Across the sector charities are exploring new ways to connect with the public and to better understand their users. Digital marketing is becoming a greater priority for charities. It can help charities reach new audiences and track their campaigns.

23. Charities are also seeking to innovate by integrating technology in various aspects of their work. For example, virtual reality technology such as videos can be used by private site fundraisers to communicate with potential donors. Battersea itself is embedding technology throughout our operations, maximising efficiency. This includes an animal information system across our sites and digital displays in public areas which provide us with the opportunity to communicate important information about Battersea’s work to the public and attract new supporters.

24. More widely than the digital arena charities can also seek to innovate in their physical infrastructure and practices, using the latest research and knowledge sharing to ensure that they are at the forefront of best practice in the work they do. Battersea, for example, uses a range of animal management techniques and has invested in state of the art modern housing facilities to improve the quality of care for our animals.

25. **Governance and leadership**

   **What skills are required to lead and manage a charity?**

   Good leadership and governance are essential to the success of any charity. A good leader will drive the charity forward in achieving its aims. Although charities can vary considerably in their function and focus we believe that good leaders need to have some key attributes to help ensure the success of their charity:

   - Ability to inspire their trustees, staff, volunteers, supporters and the wider public
   - Good communication at all levels both internally and externally to stakeholders and partners
   - Flexible and adaptable to change
   - High standards of integrity, given the extent to which charities use public money and are therefore accountable to the public

26. It is also very important that charity leaders have high levels of professionalism and skills in financial management. Large charities can have incomes in the many millions, and can have commercial subsidiaries, therefore there needs to be business like elements embedded throughout the management of the organisation. Leaders need to have the right balance of skills to manage the charity effectively. Therefore, although it is important to develop leadership within the sector charities also need
to be able to seek leaders with transferable skills and experience from the private sector or government.

27. **What support exists to develop these skills within the charitable sector?**
   It is essential that support is available to charities to help them develop leadership skills within the sector. Some of this support exists within sector bodies such as the National Council for Voluntary Organisations, Association of Chief Executives of Voluntary Organisations and the Institute of Fundraising which can offer training and development courses for charity leaders. However, beyond what is provided by sectoral bodies there is little funding available to develop leaders and the skills they need. It would be very beneficial to the sector for central funding to be made available specifically for skills development within the charity sector. This would be especially helpful for smaller charities which may not have the resources to invest in development internally.

28. **What role should trustees play in the performance and effectiveness of a charity?**
   The primary role of trustees is to provide strategic direction in order to advance the purposes of their charity. Trustees provide governance and oversight to their charity working in partnership with the Chief Executive and senior management. It is therefore important that trustees build strong and productive relationships with these individuals. They are also legally responsible for responsible stewardship of the charity’s finances.

29. Trustees should have a role in the administration of their charity, how it functions and should play a key role in ensuring the financial stability of the charity. This includes having a critical oversight role in the fundraising process and ensuring that the charity is diligent in compliance with the law and maintaining best practice in fundraising. As a governing body trustees should lead by example and set high standards for themselves and others. They should act as ambassadors for their charity representing it in public and at events.

30. **How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**
   Trustees need to be equipped with the right tools for performing their vital role and it is essential that a board of trustees has the right balance of skills to ensure they are able to fulfil their responsibilities.

31. All trustees must be properly inducted to their role and receive guidance and training as required to ensure they fully understand their responsibilities and can carry them out. Across the sector trustees require guidance, not just from their charity, but also from Government. As a regulatory body the Charity Commission has responsibility for providing trustees with clarification of their responsibilities and duties. It is important that this guidance provides sufficient detail to ensure trustees are fully informed of their role. An effective communication strategy is needed from the Commission and other regulatory bodies to ensure that guidance to trustees is
disseminated as effectively as possible to ensure all trustees are made aware of this resource.

32. **Accountability**

*How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?*

We believe passionately that all charities should be accountable for what they do and how they raise funds. Transparency and public confidence in the third sector are extremely important, and have been significantly damaged in recent times through a number of high-profile incidents. It is imperative that the public can be confident that charities are continually striving for best practice across the sector and have open and ethical fundraising practices.

33. Accountability and transparency are essential for charities. In the current climate charities are expected to be increasingly transparent and are therefore sharing more information and measurements with the public. This information should be meaningful and can include details such as the impact a charity has had, its achievements, income and expenditures, long term plans and commitments. We believe the changes made to the Charities (Protection and Social Investment) Bill[^32^], regarding the reporting requirement in the annual reports for charities with incomes over £1m a year, will lead to greater compliance with the relevant laws, guidelines and codes of practice. Reporting such as this provides more transparency about charities operations and can ultimately aid in increasing public trust.

34. In addition to external monitoring and reporting charities must also ensure they dedicate sufficient resource to monitoring and measuring compliance themselves. This should be both internal and external monitoring contractors and external agencies used by the charity.

35. Although public accountability is crucial for the charity sector there are some details which are not appropriate for public access. Charities themselves should not be subject to freedom of information (FOI) requests. Subjecting charities to FOI requests would require additional time, resources and could affect the work charities do or the partners they engage with. Financial standing and stewardship are shown in the annual returns, and we believe that this is sufficient in terms of oversight.

36. Ensuring that the public and our supporters are informed is of key importance to Battersea. We keep continuous records of the impact our work has on the lives of dogs and cats. Our key figures are available publicly in our annual review and on our website. We also provide a supporter promise guarantee to help ensure we are meeting the expectations and trust our supporters have placed with us and our dedicated supporter services team also liaise with the public over fundraising queries.

[^32^]: [http://services.parliament.uk/bills/2015-16/charitiesprotectionandsocialinvestment.html](http://services.parliament.uk/bills/2015-16/charitiesprotectionandsocialinvestment.html).
37. **Resource management**

*What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?*

As discussed in paragraph 13 the current climate of fundraising is a considerable challenge for the financial sustainability of charities, set alongside the negative perception of some charities and some fundraising methods.

38. However, long-term promotion of the importance of charitable giving and the crucial impact charities have on a wide range of aspects of society are critical to ensuring the sustainability of charity funding. To have the greatest impact these initiatives will need to be both sector-wide and specific to individual charities demonstrating the work they do.

39. In order for charities to properly assess their long-term sustainability they need to be able to deliver realistic strategies for their work supported by reliable forecasting, planning for fundraising and their wider finances. Over the past few years Battersea has been updating our sites to improve the facilities and to expand our capacity to help dogs and cats in need. We are able to invest to this level because the need for a rescue and rehoming centres for animals is ongoing. It is unfortunate that there will always be circumstances where dogs and cats come through our doors. However, this means that Battersea is able to confidently invest in upgrades with the knowledge that there will always animals in need of our help.

40. **Best practice**

Sharing of best practice is crucial for charities. This can be done through representative bodies, whether charity sector-wide ones such as NCVO or ACEVO, and within different areas of interest such as the Association of Dogs and Cats Homes. However, in order to improve information sharing organisations need to know where to look. We believe therefore that the sector needs fewer regulatory bodies with a role to play in order to make it clearer which body is responsible for which kind of regulation. The merger of the IOF and Public Fundraising Regulatory Association is a welcome step in towards this end.

41. Collaboration within and beyond the sector is important. Charities need to collaborate to share best practice. This can be done through membership organisations which allow partnerships between groups of charities. These groups provide the opportunity for charities to learn from each other and share knowledge about best practice. Partnerships can support and drive innovation within charities via knowledge sharing of developments in their field such as new research findings. Events and webinars are useful tools in bringing organisations together, and are proving increasingly popular.

42. One example of effective best practice-sharing in our sector comes from the the Association of Dogs and Cats Homes (ADCH), which has developed a Code of Practice to raise standards amongst animal rescue organisations with the overall aim of enhancing their public respect. Collaborations such as ADCH can help promote
innovation throughout the sector and help larger organisations provide support and the benefit of experience to newer or smaller bodies.

43. Best practice can also be shared through partnerships with the public sector. Collaboration with Local Authorities, for example, can provide a unique opportunity to reach communities and tackle problems specific to those communities. Battersea is growing our work with a range of Local Authorities around Community Engagement – we are able to provide advice that can lower anti-social behaviour and mistreatment of animals, and Local Authorities are a very helpful partner in identifying where that need is greatest.

44. **Commercial contracts**
Like any partnership commercial contracts should be mutually beneficial. Benefits of these contracts can include the delivery of income growth, as well as increasing the reach and public profile for both the charity and commercial partner. A specific benefit to charities is that income from this source tends to be unrestricted. Therefore, charities have flexibility on how they can best spend this income on their charitable aims. These contracts can often only require a limited investment in resources from a charity to deliver but can generate a significant income over time.

45. However, charities do face challenges from commercial contracts. They must ensure that due diligence checks are completed for commercial partnerships and charities also face the challenge of ensuring transparency of their commercial contracts to the public. It is important that the public are able to understand the relationship and arrangement the charity has with a commercial partner in order for them to make an informed decision.

46. **What should the role of Government be with the sector?**

   **The Charity Commission**
Battersea believes in principle that self-regulation is the right approach to regulating fundraising. It is proven to work in a number of sectors through a number of bodies. However, more widely, Battersea supports the role of regulatory bodies for the charity sector. The Charity Commission is one such body. The primary role of the Commission should be to regulate charities and to steward them effectively in order to ensure that charities are fulfilling their role. To do this the Commission must be resourced appropriately both in terms of financial resource and access to staff with the correct expertise. The Commission also needs powers to be able to discipline charities when appropriate.

47. **Charity funding**
Many charities fulfil a gap in public service delivery with some charities being relied upon by government to provide a service essential to the public. Charities which perform this function should have access to government funding to help ensure they are resourced effectively.

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33 An example is Advertising Standards Authority in the advertising sector, which was established to self-regulate a sector and does so effectively
48. **Policy making**

It is important that government policies are evidence-based and developed in consultation with key stakeholders. Charities are often the home of the most expert opinion on a particular issue area, and so have a role in shaping and improving government policy. Charities often have an extensive knowledge base on issues that are close to them and can have within their staff or contacts experts in the field on a particular issue. Therefore, public policy is improved by consultation with charities. This should not only be via public consultations but also in the early thinking around policy development and during the implementation.

49. Many charities provide Government with advice on issues associated with the service they provide. Charities can provide a voice for for those marginalised sections of society who have no voice or are unable to articulate it themselves. This is at the very heart of what charitable organisations look to achieve. Improving the legislative environment for the benefit if animals is central to what Battersea does.

50. One of the recent challenges faced by charities has been the introduction of the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014. It is disappointing that freedom to give and receive expert advice, from charities, could be curtailed as an unintended consequence of this legislation. It would be bad for democracy if organisations which work together on policy issues are afraid to present a joined up front for fear of unwittingly contravening confusing legislation. This could lead smaller charities in particular to disengage with the process.

51. As an organisation with over 150 years’ experience in our field of working with abandoned and mistreated dogs and cats, Battersea believes in actively speaking out on the issues which affect such animals and the work we do. We have some of the leading experts in the industry and are keen to help shape policy through appropriate means to benefit our animals in the knowledge that we speak with the necessary authority to do so.

*6 September 2016*
Question2: what are the main pressures facing charities

It is no surprise to the Select Committee to hear that the general economic climate is making it difficult for Charities and that a forecast for significant economic improvement is unlikely.

The pressure on local authority budgets is immense and it is no surprise that Coventry, after years of support, has recently cancelled the 20% discretionary rate relief for Charities. This has resulted in a significant cost increase on our overheads (c £18k) with a resulting decline in funds available for our charitable work. Given Local Authorities ongoing pressures my concern is that the 80% mandatory rate relief should remain protected and I ask the Select Committee to recommend that this mandatory rate relief remains untouched.

Fundraising from other sources such as private donations and Trusts is also increasingly difficult given the increased competition for the funds available and the impact of low interest rates on what funds are available. The discussion regarding London charities’ abilities to fund raise more effectively than the rest of the country is also a factor here – over 70% of national Trusts’ grants are awarded to London Arts organisations. Perhaps financial incentives from Government to fund charities outside London would help to redress this.

Charities’ ability to earn their way out of difficulties must also be protected so I ask that the current practice of setting up wholly owned commercial trading subsidiaries is likewise protected.

25 August 2016
Executive Summary:

We welcome this inquiry with its aim of ensuring that the attention on recent high-profile sector issues do not undermine the good work done by a vibrant and diverse sector. We believe this is a timely moment to consider what it means to be a charity today and what charities need in order to thrive. We believe charities need to consider their place in a much wider civil society ecology that supports people and communities to flourish. In this submission we suggest a number of areas the Committee may wish to explore. It ultimately sets out a positive vision of the role charities play in the fabric of British society. We are happy to support the Committee with subsequent lines of enquiry.

Our submission:

The Big Lottery Fund is the largest funder of communities in the UK, distributing around £650m each year. Over 90% of our awards go the voluntary, community, and social enterprise sector and around 90% of our grants are for under 10k, typically made to small, local organisations doing great work in their community. We work with projects using grants of a few hundred pounds up to multi-million pound awards to multi-agency partnerships led by the charitable and wider community sector. This is all made possible by National Lottery players, who have generated over £35bn of good causes funding since the inception of the game in 1994.

This funding now represents a vital strand in the fabric of British community life, supporting diverse activity ranging from unprecedented Olympic success to the Welsh National Opera, and from the Cornwall Marine Heritage project to the regeneration of Stornoway townscape in the Outer Hebrides. And for the Big Lottery Fund, it means the privilege of being able to fund around 12,000 projects that enable people and communities to do great things, ranging from a few hundred pounds for community lunches to multi-million pound investments in areas such as life chances for babies and young children, and ageing.

The National Lottery is a national asset and success, whose unique position needs to be protected by Government if this is to continue. The National Lottery generates an essential and reliable income stream for good causes in every part of the UK – particularly important in the current financial climate and for small organisations, which may be more vulnerable.

The Committee’s interest in the ‘role and purpose of charities in civic society’ and how that is changing is something we share. To this end, we commissioned a piece of work earlier this year called ‘the future of doing good.’ This is a wide ranging conversation across different sectors looking at how people and communities can respond to a rapidly changing context and what that means for the organisations working with them. The Fund has hosted a number of face to face events across the UK and designed a simple online platform.
for people to share opinions, ideas and practice. This is based on a report we commissioned from journalist and social researcher Sonia Sodha, a copy of which is included with this submission for consideration by the Committee [Report removed, available from Committee Staff on request].

It is important to understand the diversity of the sector across the UK in terms of mission, models, and scale. There are over 163,000 charities in the UK and 50% of those have an income of less than £10,000 per year (83% have an income below £100,000). Only 3% of charities have an income of more than £1m. It is important therefore to distinguish between the characteristics and challenges faced by different ‘sub-sectors’ of the charity sector. For example, charities range from ‘super-major’ charities investing in large scale medical research (such as Cancer Research UK), to umbrella bodies such as NCVO providing infrastructure support, to charities providing direct service provision (including as commissioned providers of statutory services).

The charities we work with have a particular strength in their ability to operate at a very local, grassroots level, trusted by the communities they work in. They are able to bring people together and strengthen relationships, often connecting disengaged or marginalised people with the wider communities they live in. We’ve recently seen this illustrated through the response to the Fund’s new ‘Celebrate’ funding programme, which launched in July 2016. Celebrate encourages local communities to come together and celebrate something that’s important to them. We’ve received nearly 1200 applications in the first seven weeks. The first award was made to the Darnall Community Development Centre in Sheffield who received £1200 for an event bringing local people together to celebrate the renovation and opening of the centre. The event was also a celebration of the hard work done by ex-offenders who have carried out the renovation as part of their community payback. Many of these organisations thrive on the motivation of volunteers, community support, and little funding.

We also see charitable activity playing a key role in enabling people to transform the places they live in, making them shared, sustainable and healthy spaces for communities to come together. That can take different forms, from developing and providing community assets (such as activity centres), to joining up local services around the needs of people, to protecting and enjoying the natural environment. Rethinking Parks, which is jointly delivered by Nesta, Heritage Lottery Fund and the Big Lottery Fund, provides some useful examples for the Committee to consider. 11 projects across the UK have been developed to test new business models for funding and sustaining high quality public parks, recognising that the previous model of direct local authority provision was unsustainable. For example in Bristol, ParkWork offers training and skills development for people needing additional support to secure employment. Volunteers participate in 8 week programmes that help maintain and manage Bristol’s parks. ParkWork was developed by the City Council in partnership with the Bristol Parks Forum, and provides a model that enables people and communities to be more directly involved in the parks they use. In Burnley, a similar model draws on the permaculture expertise of a local social enterprise called Offshoots.
Charitable activity also plays a key role in supporting people and communities to tackle challenges before they develop into more acute crises. This can range from simple, low-level and universal services (such as information and advice about financial management) to more targeted and intensive interventions (such as support for new parents to give babies a better start in life). This work is usually out of the scope of statutory services and can play a vital role in reducing demand. More importantly, it enables people and communities to take the lead in solving problems and exploiting opportunities. Toynbee Hall in Tower Hamlets does a range of work with local residents to tackle financial exclusion and prevent debt from becoming a crisis point. Big Lottery Fund has funded Toynbee Hall for a number of projects including the Money Mentors project which was evaluated as having a social return on investment of around £3 for every £1 invested.

The best charities we work with are those that focus on the strengths of the people and communities they work with, and all of the resources available to them, rather than on their own organisational form and function. For example, Wevolution in Glasgow supports small groups of women (usually) to come together, save a little money each week, learn new skills, and ultimately establish small community enterprises. It’s first and foremost about the strengths of the people involved, rather than focusing on their problems and deficits.

But charities in the traditional sense are only one part of a wider civil society ecology. There are also over 70,000 social enterprises and over 8,000 community interest companies. There are new private sector models emerging, such as B Corp organisations who put social and environmental impact at the heart of their business, going beyond the traditional Corporate Social Responsibility approach. The lines between different categories are increasingly blurred, and taken together, these organisations touch on every aspect of British associational life. This adds up to a remarkable and complex ecology. The Committee’s desire to understand the role and sustainability of charities therefore should be grounded in an understanding that charities themselves are a means rather than an end and do not have a monopoly on ‘doing good’.

The Committee has asked specifically ‘what is the potential of social investment and social impact bonds’. Our view is that charitable funding works best as a mixed model of income sources. Social investment is a relatively new addition to that mix, alongside established mechanisms such as philanthropy and giving, grants, contracts, trading and endowments. For social investment to work a charity needs either an asset base, trading revenues, or intellectual property. In 2012, Golden Lane Housing (a subsidiary of Mencap) used social investment from the Big Lottery Fund to develop a charitable bond that could fund specialist housing for people with learning difficulties. They initially purchased 27 properties and housed 99 people, with the strength of that model enabling them to go on and raise further funding through the London Stock Exchange and grow the portfolio to 400 owned properties, 275 leased properties, and serve 1320 people with learning disabilities.

Beyond social investment, the Committee has also sought views on ‘the current challenges to financial sustainability, as well as efficient resource and risk management for the sector’. In thinking more broadly about finance and funding, we think there are a number of issues
the Committee should explore. Our observation is that finance is more often seen as a basic budgeting function rather than a strategic tool for organisations to support achievement of mission. Many charities are poorly capitalised with weak balance sheets leaving them vulnerable to fluctuating income. Funders have a role to play in addressing this issue. We think this issue is particularly true of medium sized organisations; with smaller charities operating on a more flexible cost base, and larger organisations more likely to have stronger reserves and assets on their balance sheets. This is potentially a structural weakness in the sector affecting organisations doing crucial work. The Growth Fund, administered by Access (and funded jointly by the Big Lottery Fund and Big Society Capital) works in this space, seeking to make social investment available for organisations seeking an affordable loan of less than £150,000, addressing a gap in the market. More generally, we think there is a need to support organisations to explore and understand the finance and funding options available, and to build skills and confidence in choosing them.

The Committee has asked ‘what opportunities do charities have in the current environment?’ We think there are a number. Charities are well placed to support people and communities to prevent problems occurring and addressing challenges earlier, rather than simply coping with the consequences. For example, with the Early Action Neighbourhood Fund the Big Lottery Fund is working with Comic Relief and Esmee Fairbairn Foundation to pilot three projects worth £5.3m. This collaboration is borne of a shared interest in testing approaches to early and preventative action in public services and building an evidence base for what works, which can then be shared more widely with other practitioners. Key to each of the three pilot projects is a lead voluntary/charitable organisation designing a localised response to their context. One of those, Ignite in Coventry, is led by the local Law Centre and works to build basic legal knowledge, confidence and skills so people can cope with every day law-related issues before they become crises.

One of the strong themes emerging from our ‘future of doing good’ work is ‘generous leadership’ – the ideas that leaders of charities should go beyond the boundaries of their own organisations and recognise that their success is dependent on the health of the wider ecology they operate in. An excellent example is the Catch 22 Fellowship scheme. Catch 22, as a large national charity, have developed an 18 month scheme for social entrepreneurs who don’t work for the organisation to give them space and resources to work on new and transformative ideas. It’s not about developing new intellectual property for the organisation, but about fostering the growth and health of that wider ecology through meaningful collaboration and network building.

There exists a further opportunity for charities to better understand and articulate their impact. As the Committee itself highlights, the sector’s practice and purpose have been called into question in recent times. Impact has too often been communicated as poor statistics and exaggerated claims with the intention of driving fundraising in a competitive market. We believe there is an opportunity for more effective understanding of impact so that it drives learning, improved practice, and as a result better credibility in the work charities do. For example, Citizens Advice have done intensive research to understand the
effectiveness of their advice provision (2 in 3 have problems solved) and the impact this has on their clients’ lives (4 in 5 report additional benefit to their life). They calculate that for every £1 invested, there are £1.52 in fiscal savings to Government, £8.08 in wider public value, and £10.97 in benefit to clients. Being able to articulate their impact so effectively and credibly resulted in them winning charity of the year at the Charity Times Awards in 2015.

Ultimately, we are optimistic about the future of civil society in the UK, working as we do with thousands of committed and effective grassroots charities to support people and communities. There is no doubt that the present challenges are significant but the sector is capable of taking its destiny into its own hands.

8 September 2016
**Introduction**

Thank you for the opportunity to respond to the Call for Evidence for the House of Lords Select Committee on Charities. Our response mainly focuses on how social investment relates to your key questions. This is because our focus as an organisation is to grow the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance in order to grow their positive impact on society.

Big Society Capital (BSC) launched in 2012 following the Commission on Unclaimed Assets. We are a social investment wholesaler that provides finance for charities and social enterprises by investing through intermediaries. So far, we have committed over £772 million with co-investment to 50 deals that are who are providing a diverse range of finance for charities and social enterprises in the UK. We also have a broader championing role, to increase awareness and confidence in social investment by both charities and social enterprises and potential investors.

Please note that Baroness Pitkeathley who is chairing the Charities Select Committee is also Chair of the Big Society Trust who are responsible for ensuring that Big Society Capital remains true to its social mission.

**Executive Summary**

Social investment and social impact bonds are helping to address some of the most pressing social challenges in society. It can help organisations to access new sources of finance and support in order to scale their impact, purchase assets, build new partnerships and develop innovative services.

The challenges for social investment include attitudes to risk, awareness and capacity in the sector, sustainability of services in the current public sector funding environment and the availability of appropriate accessible and affordable products. Solutions to these challenges include providing blended finance for smaller deals, improving information and resources for charities, promoting retail investment amongst citizens and building greater alignment of resources and expertise across sectors to deliver impact and new solutions.

One specific challenge for social investment is around draft Charity Commission guidance on “Grant funding an organisation that isn’t a charity”, which could have a negative impact on the support available for early stage social enterprises and other civil society organisations, and use of social investment in the long term. We have engaged with the Commission around this issue with no conclusive outcome to date.

The Government has played a critical role in developing the social investment market in the UK to date. There are a number of actions that the Government could take to support charities to deliver impact through social investment and their broader work. These include involving charities in shaping responses to social issues, improving procurement practices,
supporting more capacity building and promoting social investment as a policy tool across local and national Government.

1. **Response to question 8: what is the potential of social investment and social impact bonds?**

Social investment and social impact bonds are helping to address some of the most pressing social challenges in society. We estimate that the size of the social investment market was over £400m per year (£1.5 billion total outstanding) in 2015 compared to £200 million in 2012, which demonstrates significant growth over the past three years as more charities are using investment to grow, purchase assets, or test new services.

Social investment is repayable finance and is not a replacement for grants or income from other sources. It is an additional tool that charities can use to deliver impact but may not be appropriate for organisations that are not able to generate revenue to repay an investment.

Over 3,000 organisations are now using social investment and a diverse range of products are now available including:

1) **Unsecured loans:** Social lenders are providing working capital for charities to scale up delivery of services to wider areas. For example, the London Early Years Foundation has accessed capital from Big Issue Invest to grow their nursery provision in deprived areas.

2) **Secured loans:** Charities can access secured loans to buy assets including buildings and property to grow their impact. For example, YMCA Birmingham took a loan from Charity Bank to build a block of flats with training rooms and community facilities for 16 to 25 year olds.

3) **Charity Bonds:** Some charities are issuing charity bonds to raise capital to increase their impact. For example, the national disability charity Scope issued a charity bond to raise finance to successful develop their income generating streams.

4) **Social Property Funds:** Cheyne Capital run a social property fund is working with the charity Thera Trust so they are able access appropriate housing to support adults with a learning disability.

5) **Community Shares:** Local organisations are raising capital by issuing community shares to deliver local impact. For example, Clevedon Pier issued community shares to renovate and maintain the iconic local landmark.

6) **Social Investment Tax Relief:** This is increasingly used by organisations to raise capital. For example, Fair Share South West used the tax relief to raise capital to grow their catering enterprise.

7) **Blended finance:** We are working with the Big Lottery Fund and the Access Foundation to provide grants and loans to charities in England. This type of finance is available for organisations who want to borrow between £50k to £150k.

8) **Social impact bonds:** The UK has led the way in developing the social impact bond market. This has helped charities receive funding to test out innovative approaches to tackling a wide range of social issues including children on the edge of care, loneliness, wellbeing, homelessness and educational attainment.

Some of the benefits of social investment for charities include:
• Helping charities and social enterprises to **grow their impact** and deliver social change. For example, in Belfast, Creative Local Action Response and Engagement is helping to reduce isolation, improve health and well-being and promote independence by empowering older people to shape and manage their care and support by drawing on the skills of local volunteers.

• The ability to **increase impact more quickly** which would not be possible without upfront social investment. For example, the Real Letting Property Fund is using social investment to buy properties which are leased to St Mungo’s Broadway who provide transitional accommodation and support for homeless people in London.

• Creating **new partnerships between the voluntary sector, public sector and investors** to tackle key social issues through new approaches. For example, in Newcastle, Ways to Wellness is a social impact bond delivered by voluntary sector providers, supporting 11,000 people who are affected by long term health conditions through social prescribing.

• The process of accessing investment, including external challenge and input from socially motivated investors can help to **build capacity and help strengthen organisations** in areas such as impact measurement.

• Providing foundations with an **additional tool to use alongside their grant making** to deliver their mission. For example, a number of foundations run a social investment fund alongside their grants programmes.

• Ensuring that grants from foundations are **directed to where they are most needed** which may be for purposes where social investment is not a viable option.

We know that there are still a number of barriers for social investment for charities including:

• **Awareness of social investment**: Charities need the capacity and knowledge to understand social investment and work out if it is right for them. We are working with partners to develop the Good Finance website ([www.goodfinance.org.uk](http://www.goodfinance.org.uk)) to provide better information for charities.

• **Business models**: There is a need to support charities to develop viable business models that can deliver impact and generate revenue to repay social investment.

• **Governance**: There is a lack of knowledge and appetite to consider investment at the trustee level (see response below to questions on Governance)

• **Financial challenges and risks**: Financial pressures faced by charities, whether due to public sector funding environment or wider economy, makes social investment seem like a more challenging prospect for many organisations. Where providers struggle to recover the full cost of delivering public services, social investment is unlikely to be sustainable. Uncertainty around government policy decisions may also make some social investment decisions too risky for some charities. For example, some charities are unwilling to consider taking on investment to secure housing whilst there is uncertainty around housing benefit changes that could affect the support they can provide.

• **Public sector commissioning**: Charities could play a greater role in delivering public series but there are often barriers to accessing opportunities due to procurement practice which tends to favour large scale providers.
• **Matching supply and demand**: The price of investment and the size of deals is a barrier to some charities. Blended finance, crowdfunding and Social Investment Tax Relief are helping to address this gap.

• **Access to investors**: For charities that want to access investment outside of social investment funds (for example from individuals), they may not have connections or knowledge to reach investors – crowdfunding platforms working to attract socially motivated investors could partly help address this.

• **Draft Charity Commission guidance on “Grant funding an organisation that isn’t a charity”**: Grant making trusts and foundations sometimes provide grants to organisations with other legal forms (eg Community Interest Companies and co-operatives) which may be delivering innovative approaches that support the delivery of the funder’s charitable mission. These organisations have the potential to take on social investment once the model can be sustained without grants. Draft guidance issued by the Charity Commission in February 2015 could have a negative impact on the support available for early stage ventures and their ability to access social investment at a later stage. We have engaged with the Commission around this issue with no conclusive outcome to date, and look forward to discussing further with other sector organisations in the autumn.

**Opportunities**

There are significant opportunities for the social investment market to develop in the future in areas including:

• **Developing the social impact bond market** further to build on the work of the Commissioning Better Outcomes Fund that was delivered by the Cabinet Office and Big Lottery Fund.

• **Aligning resources across sectors to deliver impact** through initiatives such as developing a fund & broader support to help tackle the poverty premium that we are working on in partnership with the Joseph Rowntree Foundation. Different partners can bring different skills and resources to the table that can collectively help to deliver social change.

• **Promoting more participation of citizens as social investors** there is significant potential to encourage retail investment to address social issues. This could be achieved through products such as social pensions or the existing community shares schemes, and through crowdfunding channels.

• **Making social investment more accessible to small organisations** through initiatives such as crowdfunding, Social Investment Tax Relief and blended grant and loan finance.

• **Crowding in investment capital to provide better housing for people in need** which is an area where there are already examples of success including the Real Letting Property Fund and Cheyne Social Property Fund.

• **Collaborating more with business to deliver impact** such as through our next round of the Business Impact Challenge which invites corporates to collaborate with us and co-finance approaches to tackling social issues.
2. **Response to question 3: How do charities innovate, particularly in the digital arena?**

We have seen some incredible examples of innovation in our investments. These include:

- **Developing new interventions to support people in need** that can help to improve public services through investment such as social impact bond programmes. For example, in Essex Action for Children are successfully supporting children on the edge of care by providing intensive Multi Systematic Therapy for families.

- **Developing partnerships to bring different organisations and sectors together** in ways and spaces that enable more holistic provision for people in need or that promote collaboration around improving services. For example, we have recently committed to invest in the Public Services Lab in Liverpool which is a joint initiative between Interserve in partnership with Catch 22 to help build capacity of local charities to bid for and deliver public services contracts.

- **Developing revenue and capital funding approaches which use cross subsidy models.** For example, the No Recourse to Public Funds project run by Commonweal is using profits from renting out social housing to cross subside homes for people who have Section 17 asylum status and are not able to access public funds.

- **Partnerships with social enterprises** who have developed solutions around areas that may be outside of their core expertise, and which can help deliver their mission. For example, dementia charities including the Alzheimer’s Society have partnered with Unforgettable (www.unforgettable.org) which is an online service which sells products to support people with dementia and their carers.

3. **Response to question 4: What are the skills required to lead and manage a charity?**

**Governance and leadership**

The characteristics of a well run charity include:

- A Board that is representative and includes a complementary mix of skills to challenge and champion decisions.

- **Service user representation** at Board level or through an advisory committee to ensure that their needs are met appropriately.

- A visionary Chief Executive and effective senior management team who can deliver the charities mission.

- **Clear corporate planning and performance systems**, including impact measurement.

- **An appropriate appetite for risk** as being too risk averse can limit a charities ability to fulfil its mission.

**The role of trustees**

Trustees have a dual role in charities which involves both setting strategic direction as well as providing stewardship for assets and resources. When a charity considers taking on social investment it can cause a tension between these two roles. On the one hand social investment could help a charity to embrace new opportunities to increase their impact, but on the other there is a need to manage the risk of taking on repayable finance and getting
to grips with new funding models in the process. There is a danger that trustee Boards that are unwilling to take risks associated with new opportunities could lead to a greater risk that charities unable to achieve their mission.

**Supporting trustees to fulfil their responsibilities**

The Association of Chairs’ recent survey of their members highlighted that there is limited support and development actively available for charity chairs and this is likely to be an issue for trustees as well. Trustees are unlikely to have specific knowledge or experience of social investment, although many will have very relevant experience of investment and finance from their professional careers. The lack of understanding or risk appetite at Board level is often cited as a barrier to the take up of social investment.

In September we will be launching a new campaign called “GET INFORMED – Social Investment for Boards”. This will provide resources, peer networks and support to help trustees make informed decisions around whether social investment could be relevant for their charity. The campaign is supported by the Charity Commission, the Association of Chairs, the Honorary Treasurers Forum, CASS Centre for Charity Effectiveness, Reach Volunteering and Trustees Unlimited.

Charities that have a strong Board who are well informed about the range of funding options available to them should be better placed to make decisions about how to fund the long-term delivery of impact, which could include using social investment.

**Response to Question 6: How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

The key to accountability is for charities is to be able to demonstrate how they use their resources to deliver their mission. In the social investment market, measuring and reporting social impact helps organisations to demonstrate change, learn, improve and be accountable to their donors, funders and investors. It is also vital for charities to gather feedback from their service users to ensure that the services offered respond to their needs.

Shared measurement approaches for impact measurement could help charities make better comparisons with their peers and encourage learning. It can also help a group of charities to collectively aggregate their impact information and use it to inform policy or spending decisions.

**Response to Question 7: What are the current challenges to financial sustainability?**

Many charities are facing increased demand for their services in a climate of reduced funding. For example, in a recent Charities Finance Group survey 40 per cent of charities felt that they did not have enough resources to meet rising demand. NCVO found that a third of charities with income of less than £1 million a year have no reserves at all which could have significant implications if funding streams ended.
The short-term nature of some funding arrangements coupled with the uncertainty about future sources of income can be a challenge for charities. Social investment can be a valuable tool to help organisations to diversity their income streams, which can reduce their reliance on grant funding.

There has been significant mainstream media challenge against charities recently and a risk that the public perception of charities could change as a result of ongoing negative publicity, which may in turn affect giving.

Some solutions to overcoming these challenges include:

- **Restructuring, partnerships and collaboration** - social investment can be used to support mergers between organisations which can lead to greater efficiencies and cost savings.

- **Developing trading/revenue models** – more support could be provided to help charities to develop revenue or trading models to diversity their income streams and reduce reliance on grants. Charities often set up subsidiary organisations to be able to separately ring fence some activities and protect the rest of the organisations’ activities and services for its beneficiaries. At present it is challenging to invest into a subsidiary organisation that is not a charity, other than on commercial terms. It would be useful if the Charity Commission could consider greater flexibility to allow charities to invest into subsidiary companies (with same mission and objectives) where appropriate (including considering with HMT/HMRC the availability of tax incentives, such as SITR).

- **Investing in capacity building** – there have been a number of capacity building support programmes in the past but further assistance is needed to help charities to develop capacity to be sustainable for the future. This could include more support to help charities access social investment or broader capacity building including peer to peer support and learning opportunities.

- **Showcasing good practice** – we are continually sharing information and good practice to support organisations who are interested in social investment through holding events with opportunities to hear from peers, resources and tools developed with sector partners. For example, we are working with partners to develop run the Good Finance website ([www.goodfinance.org](http://www.goodfinance.org)) which has lots of useful information and resources to support charities to make more informed decisions around social investment.

**Response to question 9: What should be the role of government in the sector?**

We recognise that government has already provided significant support to the development of social investment market. This includes setting up Big Society Capital and the Access Foundation, developing the social impact bond market and funding capacity-building programmes such as the Investment and Contract Readiness Fund. In addition, the recent introduction of specific trustee powers to make social investments is a welcome development.

There are a number of opportunities that the Government could consider to support the sector which include:
• **Involving charities in shaping responses to major social issues**: Charities are experts in understanding social issues and could be involved more in setting policy responses to addressing them. Many social issues cut across Government departments so a coordinated response is often needed to address them.

• **Improving procurement practice**: It can be a challenge for many charities to bid for public sector contracts so there is a need to level the playing field. For example, we recently commissioned Reform to research what practical steps could be taken to support greater involvement of charities and social enterprises in public services.

• **Realising the potential in Social Value Act** as set out in Lord Young’s review: This could help charities and social enterprises to create greater social impact if the state purchases their goods and services.

• **Continue to use social investment as a policy tool**: Social investment can be used to scale new approaches to address or prevent social issues and could be used more widely by Departments.

• **Further capacity building and infrastructure support**: The Government could provide further capacity support to charities to help them become more sustainable through using approaches such as social investment or building the skills that they need to respond to the current environment.

• **Promote charities role in devolution**: There could be an opportunity for charities to play a greater role in service delivery as part of local public service reform but further clarity is needed about how charities should engage with these new structures.

• **Charity Commission relationship with other social economy regulators**: In addition, the structure of Government’s relationship with the broader social economy could be considered. There are a large number of organisations with social purpose that operate outside the remit of the Charities Commission, including at least 10,000 community interest companies and 10,000 registered societies, sitting alongside approximately 160,000 charities. There are common factors to each of these organisations, including social purpose, reporting and some form of asset lock. The entire social economy would be stronger if there was more coordination between these organisational forms and the relevant oversight bodies, including by providing consistent pathways for registration and establishment of organisations, sharing of data about organisational performance, structure and governance, and improved consistency in the type of information and requested for each form. We have previously advocated for the development of a social economy commission and encourage Government to consider how such a new body could provide a valuable partner to the Charity Commission in future.

5 September 2016

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Bolton Community and Voluntary Services CVS — Written evidence (CHA0064)

This consultation response is from the perspective of Bolton CVS as Bolton’s Voluntary and Community Sector Infrastructure and Development Support Membership Organisation.

Bolton CVS

*Bolton CVS is the local infrastructure and development support organisation for Bolton’s voluntary and community sector. We are a membership organisation, with over 380 member organisations and whilst this submission isn’t made on behalf of our member organisations, we aim to capture some of the issues, concerns and achievements of our membership through this submission.*

As an organisation, we have over 26 years of providing support, guidance, development and grants to Bolton’s diverse voluntary and community sector. As the point of contact for Bolton,

Bolton CVS’s vision is of a sufficiently resourced and sustainable voluntary and community sector which successfully meets the diverse and changing needs of the people of Bolton.

Response to the call for evidence:

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?
   - How has this changed?
   - What makes them distinct from other organisations doing similar work?
   - What role can charities play in community cohesion and civic action?
   - How does the sector benefit from volunteering?
   - How has the status of volunteers changed?
   - What challenges do charities face in trying to fulfil their role in civic society?
   - How can these challenges be overcome?

The role of charities is to champion, promote, and embed participation, activation and inclusion in society, protecting the most vulnerable, enabling those that require the support to ensure that equality of outcome can be achieved in society for all, regardless of their identity or the differences that may exist.

Community action, activation and involvement is at the very heart of every established and emerging charity and that is the role that they’ve always played and are continuing to play in society today.

Charities are distinct through the fact that their beneficiaries are their ‘bottom line’ and focus. The improvement in health, wellbeing, life, love and happiness are the measures that demonstrate success. Charities are unique because they exist to put themselves, as
organisations, out of business; through achieving their missions, for making their visions a reality and through truly embedding their values as organisations in everything that they do.

Without Charities, effective community cohesion and civic action will not exist. Charities help to guide and influence, they shed light on issues which may not often emerge through the media and they enable people to take action at the micro and the macro level, thus ensuring that people feel connected to and create meaningful and lasting change.

In Bolton, our local strategic partnership titled ‘The Vision’ provides a platform for community cohesion to be discussed, bringing together elected decision makers, local council and local NHS leadership with the voluntary and community sector to define the path and collectively achieve local intentions: http://www.bolton.gov.uk/sites/DocumentCentre/Documents/Bolton_Our_vision_2007-2017.pdf.

Here in Bolton, at the last count through our State of the Sector Survey in 2012, we had 100,900 volunteering hours each week, from 32,000 volunteers. We believe that these numbers are grossly underestimated. Voluntary action and activity is the very bedrock of this town, ensuring that everyone can play their part in making positive change.

It is essential that volunteering continues to be effective, quality, choice and inclusive. In order for this to happen, it is essential to ensure that there is local provision, together with a local strategy led by the voluntary and community sector on volunteering and volunteers. In Bolton, the Volunteer Centre is able to undertake this leadership role: http://www.boltoncvs.org.uk/volunteer-centre.

Ensuring that volunteering is quality and safe takes a strong strategic plan that leadership embraces and buys in to. It has to be invested and resourced to ensure consistency and effectiveness.

Volunteering must remain voluntary. Furthermore; employer supported volunteering is a great strategy providing that the voluntary and community sector is at the heart of designing the model and approach. However technically, it isn’t volunteering if someone is being paid for the time that they’re taking doing something. I think that the language is very important.

The status of volunteers is changing and evolving and different organisations have different ways of engaging and supporting volunteers, depending upon the types of activities that those organisations undertake. Volunteering shouldn’t be one pathway or one experience as volunteering enhances a charities offer and therefore has to be tailored to the charity’s needs.

In Bolton, voluntary action ensured that school meals were distributed throughout the summer in 2016 through Urban Outreach and local partners: http://www.urbanoutreach.co.uk/portfolio-posts/bl_bolton_lunches/. This is what volunteers do. They change that they make every day.
One of the biggest challenges for charities in civic society is the balance of power and the parity and equity that is granted from local leadership and in decision making. At the national level, larger charities have the ability to engage decision makers in the issues that are affecting marginalised, diverse and disadvantaged communities and I believe a clearer focus and mandate on how local decision making must involve the charities would be welcome for all, truly building on the message ‘no decision about me, without me’, as charities have a unique access point to communities. We need to ensure that the time of ‘doing to’ is gone and ‘doing with’ is embraced everywhere.

Furthermore, strategic investment in community action and mobilising civic action needs to be considered. Creating the environment for challenge, and for that challenge to be robust and for the challenge to be welcomed will mean positive change, however often where investments are made, this can be concerning as in a time of significant reduction in local investments for the voluntary and community sector, charities feel at risk of exposure.

Through also the change to delivering contracts also provides a conflict for charities and therefore the representation of infrastructure at the local level to take on the role of the strategic voice for the voluntary and community sector is key for the future independence and financial security of the broader voluntary and community sector.

We are also seeing more challenge in finances for the sector and we have to ensure that the playing field is fair for charities and that Social Value is a genuine approach and fostered in decision making across any public sector spend, regardless of its nature and size.

**Pressures and opportunities**

2. What are the main pressures faced by charities currently, and what impact have these had?
- What opportunities do charities have in the current environment?
- Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

It is essential that strategic investment programmes are created and maintained in order to tackle the fact that investment in local voluntary and community action has reduced significantly since 2010.

Whilst it can and should be argued that charities often create their own opportunities, often when faced with the most challenging circumstances, through capitalising on assets, wisely utilising resources and ensuring that beneficiaries are the focus, the long history has built resilience and provides the platform to make meaningful and lasting change in communities, we should be committed to supporting charities to thrive and continue.

It is essential that if European Funding changes with Brexit, that the Government have a clear and accessible strategy to ensure investment in community action and activities through charities that gets to the most vulnerable, the most in need and the most deprived.
The distribution of funding must be equitable, with clear parameters for distribution and access for the voluntary and community sector.

It is clear that size is a factor for charities and strategy to ensure sustainability is often linked to size. With local cut backs, some areas have seen greater investments in the voluntary and community sector, however this is not the case in Bolton and whilst there is still some investment in grants, this has reduced significantly and challenges the ability of the amazing community action that we’ve seen, to continue.

There is also the risk of ‘sexy issues’ which impacts on charities; where causes are not popular, or captivate the mind of the community, because of the diversity of the population, because of racial or religious tensions, because of the media portrayal or bias.

Service delivery charities with proven history and track record of achieving outcomes should be the provider of choice in localities and we should be creating a system where these types of organisations are guaranteed investment to continue providing services on contracts of 3 years or more. Furthermore, their independence in providing those services in the best way for their beneficiaries must be open to scrutiny; to ensure equality of access and equality of outcome for all. Where providers provide support to one specific group, this should also be welcomed and supported, in line with the Equality Act 2010 and in line with the Charities aims.

Where national organisations are funded (either regionally or nationally), there should be a drive to ensure that their supply chains are made up of local experts from the voluntary and community sector, with clearly allocated investments. Criminal Justice and Working well (Greater Manchester) are both examples of where this could have added more benefit. This will build the capacity of the sector to deliver more and will also ensure that ‘local is vocal’. We need to create an effective ecosystem where the expertise and reach of charities is seen as the genuine benefit and not the size or scale. Big is beautiful, and so is bijou.

Where charities are reliant on fundraising income, compliance is key and we must ensure that organisations who do not fundraise properly are challenged. However, we must also ensure that charities are supported to be able to fund raise properly, avoiding threats, ambiguity and confusion. Clear messages must be sent out about regulation and what that means and those responsible for establishing regulation must be from the charity field.

A local example of excellent development around fundraising is Bolton’s Lads and Girls club patrons scheme: http://www.boltonladsandgirlsclub.co.uk/get-involved/become-a-patron-2/#sthash.NCf05Szi.dpbo. However it is not as simple to assume that every charity can replicate this model, as there’s only certain ways that this can work and this supports activities.

There needs to be an effective local funding mix that considers the operating costs of organisations too and full cost recovery models for charities providing services is essentially and should be mandated for voluntary and community sector investment nationally.

Innovation
3. How do charities seek to innovate, particularly in the digital arena?
- What more could be done to promote innovation, and by whom?
- What barriers are there to being innovative?

Charities exist because of innovation, the bright idea that sparked the need for the movement, the service or the information is the pure innovation that charities are built on.

Furthermore through the development of apps for mobiles around health and wellbeing, e-appointments, e-therapy, e-recovery, utilising digital guidance and in many other ways, the voluntary and community sector is embracing digital.

In order to innovate at scale, that takes effective investment and access to grant programmes. The Public Sector doesn’t have to carry the burden of risk of closure when it invests in an IT programme or large scale change to services, so why is that okay for the voluntary and community sector? We have to make sure that we consider this and how we support the sector to do what it does best; innovate.

Bolton CVS believe that all decisions about voluntary and community sector funding must consider the impact on health and social inequalities. This goes much deeper than an Equality Impact Assessment and is much more focussed on the wider impacts of inequality, considering socio-economics and geographies too; neighbourhood level interventions are effective, but place based can exclude those already marginalised and disenfranchised and this must be considered. We have to consider identity, place and equality of outcome when making decisions about how investment is targeted to improve the outcomes, and more specifically the lives of residents.

We have to recognise that often, the role of charities is working with vulnerable and excluded people, so whilst digital development needs to be a priority, it needs to be fully inclusive of all, and digital shouldn’t be seen as the solution for everything, but being part of a solution.

Through Greater Manchester Devolution, the digital roadmap is dominating the Public Sector agenda for digital, however this is incredibly poorly connected to the voluntary and community sector.

When planning digital developments, whether ‘Digital by Default’ or ‘Paper free by 2020’, the local planning must include the voluntary and community sector and how it connects in with strategies; but this is not usually the case for charities.

Governance and leadership
4. What skills are required to lead and manage a charity?
- How can these skills be gained?
- What support exists to develop these skills within the charitable sector?

The best way to ensure effective Leadership and Management is to ensure that there is a Local Infrastructure Organisation like Bolton CVS in every locality providing support to the voluntary and community sector. Effective infrastructure supports will help to ensure that
effective governance will be in place and to support development and training in the local voluntary and community sector.

In order to effectively manage a charity, the Leadership needs to challenge and be challenged. Innovation is good and so is knowing what you’re good at and building that in to whatever it is that you do.

Models of working that involve people with lived experience of the issues for which your charity exists is excellent, balanced with the skills required to ensure that the finances are managed well is key. A great example of this is Inspiring Change Manchester, a project managed by Shelter: [http://inspiringchangemanchester.shelter.org.uk/](http://inspiringchangemanchester.shelter.org.uk/).

Organisations regularly need to review skills and ensure that a Board is high performing then organisations need to measure what they do. However because of the nature of the work, the measurements need to appropriate and proportionate to the work of an organisation.

5. What role should trustees play in the performance and effectiveness of a charity?
- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
- What, if any, changes might this mean for current arrangements?

Again, effective local infrastructure support organisations, such as Bolton CVS will ensure that trustees performance and development is a focus.

**Accountability**

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?
- What, if any, changes might this mean for current arrangements?
- How should charities assess their long term viability and/or sustainability?

Local infrastructure organisations can support Charities in being properly accountable to their beneficiaries and support in the development and plans to achieve this.

The existing process of registering with the Charity Commission helps to ensure that organisations know what it is meant to do and keeps focus on their mission. The process of publishing information and annual general meetings all helps to ensure that they’re properly accountable, however this takes resource and to do it properly, exposes an organisation so it is essential to ensure that expectations are both proper and proportionate for the size of organisation.

The principles of co-production can be further explored and implemented and that as Charities, we can develop new principles and models by involving those who provide services, and those who services are provided for in Governance structures.

**Resource management**

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?
- How can these challenges be overcome?
- How can best practice and information be shared across the sector?
- What lessons can be learnt from past mergers or dissolutions of charities?
- How can charities effectively deliver services and be assured that their work achieves successful outcomes?
- What are the benefits and challenges of funding for charities being derived from commercial contracts?

The challenges to financial sustainability include significant reductions in grant funding, increased competition with the private sector and public sector, the creation of special purpose vehicles for services such as adult social care, the length of contracts being 1 year funding and not a minimum of 3 years and the move to everything being funded through contracts.

Bolton CVS mirrors the NAVCA guidance in the fact that;
- the distinction between contracts and grants can be blurred. It is important that the documentation reflects the label the parties want to put on their relationship and that the appropriate rules are applied. It is a matter of good drafting to ensure that a grant agreement is clearly set out as such.
- Grants and contracts should be used in appropriate circumstances. The issues arising when moving from grant funding to a contract mean that the decision to do so should not be taken lightly.

Social investment
8. What is the potential of social investment and social impact bonds?
- What are barriers to fulfilling their potential?

Social Investment can help those organisations that are in a position to take advantage of that opportunity, particularly those with a strong financial position. As strong financial positions aren’t universal, we need to approach these options cautiously. Social investment and Social impact bonds are a part of the solution to a complex funding ecosystem and should not be viewed as the solution.

Many charities require support in understanding social investment and social impact bonds; we need to ensure that the information that they have prepares them for engaging and enables them to take part.

The role of the Government
9. What should the role of Government be with the sector?
- What should be the role of local Government?
- What should be the role of the Charity Commission?
- Have these relationships changed? If so, how?
- How should Government (national or local) focus its resource to deliver its civil society agenda?
- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?
- What are the opportunities and challenges associated with local devolution?
The role of Government should be to advocate for and champion the sector.

Local Government is instrumental in ensuring a strong and effective voluntary and community sector. The role of Local Government should be to allocate adequate resource to a local infrastructure organisation so that the voluntary and community sector can engage local structures through its membership, whilst retaining independence.

Local Government should recognise the value of the sector, as it does here in Bolton and it should ensure that there is a commitment towards investing appropriately through grants to stimulate innovation.

Relationships have changed and whilst there are a range of factors that can be directly attributed to, it is essential that we focus on the key priorities for the voluntary and community sectors relationship with local government which should be around:

- The priority needs in the locality, and any emerging needs.
- An understanding of the delivery element of public sector partners.
- An understanding of duplication and gaps in provision, and why that may need to occur in some instances.
- Collaborative working across sectors.
- Voluntary & Community Sector working on an equal partnership basis and building on the Compact.
- Use and benefit of local knowledge.
- Keeping and attracting the local investment.
- A Co-designing of funding that includes the development of new ways of commissioning / Procurement / Grants.
- Focus on outcomes and social value.
- Development of appropriate Alliances that includes stronger groups supporting smaller groups.

The solutions to meet the needs of a diverse population must be found in collaboration, and this means recognising Voluntary and Community Sector groups and organisations as equal stakeholders. Processes, networks, consortia, alliances and forums already exist to enable this, and we can use them more effectively.

**Lessons from other sectors and countries**

**10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?**

Please also include in your submission any information you think may be relevant to our inquiry.

We must liberate the beauty and amazing change achieved through local interventions. I believe that engaging with the sector at the local level, taking this call for evidence on a roadshow will truly help you see new and innovative approaches that could be embraced nationally.
4 September 2016
1. Bond is the UK membership body for organisations working in international development or supporting those that do through funding, research, training and other services. We have over 440 members ranging from large agencies with a world-wide presence to smaller, specialist organisations working in certain regions or with specific groups of people.

1.1. Over the last 18 months, Bond has been leading a project on behalf of a number of organisations working in the environment and international development sectors to ensure charities operating in the UK have the space to advocate and influence. We do this in the context where CIVICUS - the World Alliance for Citizen Participation have found that there were serious threats to civic freedoms in at least 96 countries around the world. The evidence in this submission is drawn from our experience from this work.

2. What is the role and purpose of charities in civic society in England and Wales?
   - How has this changed?
   - What makes them distinct from other organisations doing similar work?
   - What role can charities play in community cohesion and civic action?
   - What challenges do charities face in trying to fulfil their role in civic society?
   - How can these challenges be overcome?

2.1. Charities, both big and small, make a unique contribution to communities across the UK and beyond, from providing services, protecting our natural environment, encouraging participation in arts and culture, fostering enterprise and engaging in public debate. Civil society can support societal cohesion by creating safe spaces for discussion and reconciliation, and facilitating high-quality public engagement with serious issues of public interest.

2.2. Many charities are regularly called upon by government and Parliament to bring the real-world experience of beneficiaries and evidence-based expertise into public policy debate. As a result charities have played an important role in campaigning to influence and secure legislation and public debate on many important issues of our time, including climate change, global poverty, and equal marriage.

2.3. It’s easy to believe that campaigning and influencing is something that charities have just started to do, but the opposite is of course true. But as Joe Sexton noted in his article for Third Sector in December ‘Many of our best-known charities have been campaigning to change government policy or public attitudes, or both, for hundreds of years – take RSPB for example set up to try to stop Victorian women wearing the feathers of rare and exotic species in their hat, or Oxfam one of whom earliest acts in 1942 to try to persuade the Allies to relax the blockade of Nazi-occupied Greece so the supplies that they had raised could get through’.

2.4. As charities, our advocacy and influencing work is guided by and regulated under CC9 – Speaking out: guidance on campaigning and political activity by charities. We have found
this guidance to be useful, and it is well understood amongst our staff and within our membership.

We welcome the guidance that CC9 provides – which requires that we only undertake influencing activities that are linked to our charitable purpose and to ensure that we remain party-politically neutral. In addition, we work within the Charities, Elections and Referendums guidance that applies to our work during the period between the announcement of an election, and the date on which an election is held.

2.5. However, in recent years many charities have felt that their involvement in activities linked to voice and campaigning has come under increasing pressure, through the introduction of a range of legislative and regulatory measures that have sought to reduce the space, or undermine the important role that charities can play in influencing public policy.

2.6. Recent research conducted by Bond has identified 17 different examples of threats to our space to operate and campaign in the last 3 years - from the announcements of the anti-advocacy clause to be included in central government grants, to the suggestions that we should pay to protest, to ill-informed comments by the previous Minister for Civil Society that charities should ‘stick of the knitting’.

2.7. There is evidence that these threats to our space have had a ‘chilling’ effect on the ability of charities to speak out. In the Third Report of the Commission for Civil Society and Democratic Engagement - 63% of survey respondents stated that compliance with the Part 2 of the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 will make some or all of their organisational or charitable objectives harder to achieve, with the suggestion that many NGOs would be more cautious about campaigning on politically contentious issues because they fear breaking the new law or the reputational risk of vexatious complaints.

2.8. We believe charities have an important and unique role in a vibrant democracy. We are proud of the role that we have played in campaigning to influence and secure legislation and in public debate. We would hope that the House of Lords Select Committee on Charities acknowledges and reaffirms the important and unique role that charities play in a democratic society.

3. Pressures and opportunities

What are the main pressures faced by charities currently, and what impact have these had?

- What opportunities do charities have in the current environment?
- Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

3.1. As noted above, recent research has identified 17 examples of threats to our space to operate and campaign, these have had a range of impacts on the ability of charities to advocate and influence. In particular we would like to draw the Committee’s attention to
the following which see as placing disproportionate pressure on charities involved in campaigning and influencing work;

3.2. Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 - In 2014, the coalition government introduced legislation that restricted the ability of ‘third party’ organisations to campaign in the run up to the general election, which is often referred to as the Lobbying Act.

3.2.1. The Act was introduced under the guise of the need to regulate lobbying, but the sections of the Act doing this have largely been ineffective. Part 2 of the Act introduced new rules for charities, NGOs and campaigning groups undertaking public-facing campaigns in the run up to General and Devolved Administration Elections. For many charities this was in addition to the existing guidance found in CC9 for how charities should conduct themselves around elections.

3.2.2. The Commission on Civil Society and Democratic Engagement, chaired by Lord Harries of Pentregarth produced four reports looking at the effects of the Act on the ability for civil society to campaign and influence, Each report was based on evidence drawn from charities and campaign groups addressing a very wide range of issues, from across the UK, and ranging from small community groups to large well known non-governmental organisations; as well as the Electoral Commission, gathered through evidence sessions and online questionnaires.

3.2.3. The most recent report by the Commission was produced following the 2015 General Election and found that;
- There was no evidence to substantiate the claim that the Lobbying Act was needed to avert undue influence on elections.
- That the Act has now been tested and there was considerable evidence to show it has had a negative impact on charities and campaign groups speaking out on crucial and legitimate issues ahead of the election. In particular the report found that;
  - Definition of Regulated Activity - The Lobbying Act provides a broad definition of activities that could be considered to ‘influence’ the outcome of the election, known as regulated activity. There are concerns with the definition of regulated activity: the breadth of campaign issues it covers, and the ambiguity of its meaning. Charities and campaign groups reported to the Commission that they found it difficult to know what was and was not regulated activity.
  - Regulated Period - The Lobbying Act provides for a very long regulated period, which encompasses the 12 months before an election. For many this is simply too far away from the election for most activities to be relevant.
  - Working Together - Charities and campaign groups reported to the Commission that the rules for ‘working together’ as part of a coalition campaign were problematic. Working together as part of coalitions is widely accepted to be good practice amongst charities and campaign groups to amplify their impact and to use resources efficiently. The Commission found evidence of some NGOs withdrawing from coalition campaigning that they
would otherwise have undertaken because of the Lobbying Act, this seems to specifically affect smaller organisations.

- As in previous reports, the Commissioners also concluded that there is considerable evidence of the following:
- Chilling effect - many charities have found that it restricts the activities that they can undertake around elections, and causes more staff time and resources to be spent on ensuring compliance rather than furthering campaign aims and objectives.
- Red tape - Over 50% of organisations that responded to our survey indicated that the Lobbying Act had delayed the planning of their campaigns

3.2.4. An independent review of the impact of the Act was undertaken at the request of the Cabinet Office by Lord Hodgson of Astley Abbotts which reported in March 2016. The review recommendations are extensive, and, including changing the definition of what is regulated activity, reducing the regulated period to 4 months from the current 1 year and improvements for those working on joint campaigns with other organisations. The Government has said it will consider the findings of the review.

3.2.5. Finally we would emphasise that the biggest concern and impact here is on those who we seek to serve, often the most marginalised in our global society who expect us to ensure that their voices and their stories are heard. The Lobbying Act as well as the other 16 measures and instances described above have reduced charities’ ability to do this well, in spite of their best efforts.

3.3.1. Anti-Advocacy Clause - In March 2016, the previous Minister for the Cabinet Office, Matt Hancock MP announced that the Government will be including a clause in all grant contracts with charities that mean that funds cannot be used for ‘activity intended to influence or attempt to influence Parliament, Government or political parties, or attempting to influence the awarding or renewal of contracts and grants, or attempting to influence legislative or regulatory action.’

3.3.2. While the implementation of the clause has now be paused, many charities are concerned that the broad drafting of this clause could restrict important opportunities to pass on valuable insights on policy to government and to MPs and Peers.

4. What should the role of Government be with the sector?
- “What should be the role of the Charity Commission?”
- “Have these relationships changed? If so, how?”

4.1. We take with the utmost seriousness the need to be transparent, accountable and to retain public trust and confidence in our work, and to have a regulator who ensure that we are meeting the law, upholding high standards and best practice. We know that public trust is essential to our ability to continue to deliver for the communities and causes we were established to speak up for.
4.2. We acknowledge that the Charity Commission has been asked to take on more an ‘enforcement’ role by the Government, but in taking this approach it appears to have adopted an often unreasonable and an entirely uncompromising approach rather than working in a more ‘community policing’ approach to build relationships within the sector. This has meant at times it has actively undermined public trust in charities.

4.3. We remain concerned about the governance of the Charity Commission. A January 2015 report from the National Audit Office advised that there was a risk that if the Board continued to become involved in executive matters this could limit the Board’s independence and ability to hold the executive to account. The report found evidence that board members have appointed contractors, commissioned reports without enabling senior managers to comment, and held meetings with charity trustees.

4.4. The report recommended that the Commission Board keep its level of involvement in executive decision-making under review, and alert to the impact of its involvement in executive decision-making.

4.5. The Charity Commission does not appear to have responded to these concerns, and in some cases seems to have increased involvement in day-to-day decision making. High-level cases are escalated to the Board, away from the Executive, to the Public Interest Litigation and High Risk Cases committee.

4.6. We are not clear about what steps have been taken to ensure that the recommendations of the National Audit Office have been responded to. An independent review into the Governance of the Commission undertaken by Alan Downey has not been made public, and we would suggest that the Committee might want to explore the content of this.

4.7. On campaigning and voice, it has been particularly unclear what view the Commission staff and board take. Recent comments by the Chair of the Commission has indicated both that ‘It can be, of course, the duty of a charity to tell the public some uncomfortable truths. At times, the greatest service a charity can render is the simple act of holding a mirror up to society’ and ‘Campaigning treads a fine line, of course. We have seen the damage charities can do to themselves if they push too hard’.

4.8. While charities accept CC9 - which is well understood by trustees, amongst our staff and within our membership, and requires us to only undertake influencing activities that are linked to our charitable purpose and to ensure that we remain party-politically neutral, there have been persistent suggestions that the Charity Commission is seeking to review and revise this. This is despite the fact that there have been no significant changes in campaigning case law, since the last edition of CC9 was published in 2008, and relatively few complaints about charities breaching CC9 have been made.

4.9. The production of the recent guidance around the EU Referendum is a good case study in the approach that the Commission seems to have adopted, and for us falls short in both the process taken to produce the guidance and the content/tone of the guidance. While
many of organisations chose not to campaign, or to take a position, on the EU Referendum, the guidance risked further undermining public trust in charities, and reduce the legitimate contributions charities can make to the democratic debate.

4.10. The thrust of the Commission’s guidance appears to suggest that charities, unlike businesses, trade unions, scientists, cultural figures and others, should be obliged to keep counsel during the referendum campaign, for example the lack of positive affirmation in the guidance of the role charities can play in democratic debate when they are speaking in line with their charitable objects.

4.11. On the process, charities had been asking the Commission for this guidance for some months, but in the end it was produced with relatively close to a referendum, without consultation, with many charities learnt of its existence through the media rather than directly from the Charity Commission.

4.12. The production of the guidance was further undermined, when one member of the Policy Guidance Committee, Gwynthan Prins, then published an essay calling for Britain to leave the EU on the websites of both Historians for Britain and the Institute of Economic Affairs. Comments that comments contradict the Cabinet Office’s code of conduct for board members of public bodies, including clauses that require board members to abstain from controversial political activity, make no political statements on matters directly related to the body’s work, to exercise proper discretion, to avoid conflict between public duties and private interests, and to avoid the suggestion of bias.

5. Lessons from other sectors and countries
What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

5.1. We worked closely with colleagues in Scotland, where many of our members are regulated by Office of the Scottish Charity Regulator (OSCR). We are particularly aware of the different approach the two regulators have taken to charities engagement in Referendums.

5.2. For example in the run up to the Scottish Independence Referendum, guidance was produced that endorsed the ability of charities to campaign for a yes or no vote, provided this was supported by virtue of a clear link to the purposes of the charity.

5.3. The guidance also made clear that this would not in itself be advancing a political party, which was a reasonable approach in the context of a debate on a major constitutional policy choice, with political parties often falling on different sides of the divide. We would suggest that the Charity Commission could learn lessons from the more considered approach that OSCR takes.

5 September 2016
Submission to be found under Elizabeth Green
Submission to be found under Dr Theresa O’Toole
About Us
At the heart of The Brain Tumour Charity is our vision to see brain tumours defeated. They are the biggest cancer killer of our children and adults under 40. Because of where they are, they are difficult to treat and steal life. Their impact is far reaching – for the person that they affect, their family and friends, the wider community and on our economy. There’s been very little progress in their treatment and survival rates have barely changed over the last 40 years. As a charity we are committed to having the biggest possible impact for every person affected by a brain tumour, to defending the most amazing part of the human body, so that getting a diagnosis no longer means a death sentence.

Responses to consultation questions
1. What is the role and purpose of charities in civic society in England and Wales?
   • How has this changed?
   • What makes them distinct from other organisations doing similar work?

1.1 The purpose of charities is to meet need that is not met by the state. In the health and social care sector this could be through direct service provision and advocacy on behalf of patients and their families. It is also the case that charities meet need by furthering our understanding of causes and trialling new models of meeting need (i.e. new services, new treatments and medical research).

1.2 The Brain Tumour Charity was founded by parents who had lost their child to a brain tumour, and wanted to make sure that support was available so no one would face brain tumours alone. They saw the need to reduce diagnosis times, speak up against inequalities in brain tumour research funding and lack of progress in improving survival. The charity has grown into the largest dedicated funder of brain tumour research in the UK, investing over £18.3million to date and providing support to thousands of people personally affected each year. We actively provide the patient voice in any arena where it is vital that they are heard – whether in developing services, campaigning for change or shaping research.

1.3 Over the last two decades, the role of charities in health and social care has broadened, with many charities now investing heavily in research as well as being active in campaigning, lobbying policymakers in the NHS, NICE and Government on behalf of the patients they represent on issues like improving earlier diagnosis of cancer. This trend is evidenced in The Brain Tumour Charity’s own journey as we have sought to improve the quality of life of people living with the disease. Overstretched statutory services just don’t have the resources to address the isolation that people experience, or to provide
support when relationships are pushed to the limits, or even represent their patients amongst policymakers – we do. Because those that give generously to fund our work, we are able to fund research giving hope for the future, as well as providing support for life today.

1.4 Finally, charities can help to raise public awareness of conditions (and their symptoms) that have not been prioritised by central or local government bodies tasked with building understanding of health and social care conditions. For example, as a charity we have a duty to raise awareness of the symptoms of brain tumour amongst the general public\(^5\)– early diagnosis means treatment may be available sooner and long term outcomes may be better. Our HeadSmart campaign, which raises awareness of the signs and symptoms of brain tumours, was developed with the University of Nottingham and the Royal College of Paediatrics and Child Health (RCPCH) in response to a lack of public awareness of the disease. Since its launch, the campaign has helped to reduce average diagnosis times from 9.1 weeks in 2011 to 6.7 weeks in 2014.

Despite attempts to include evidence from HeadSmart in national public health campaigns such as Be Clear on Cancer, much of the focus of these campaigns has been on more common cancers and symptoms, meaning that charities representing rarer cancers will continue to play a prominent role in raising public awareness.

- **What role can charities play in community cohesion and civic action?**

1.5 Charities play a vital role in bringing people together for a common cause, building communities that transcend geographical boundaries. We also speak out on behalf of our beneficiaries and campaign for change when statutory services let them down, holding healthcare providers to account.

1.6 A brain tumour diagnosis, and the ensuing symptoms, can have a devastating impact on the social fabric of a person’s life, causing them to retreat from social and leisure activity\(^6\). By recruiting volunteers who have been personally affected by a brain tumour, we have helped to reduce social isolation, providing people with an opportunity to use their skills and make a contribution to the Charity’s work.

1.7 Community and corporate partnerships between charities and businesses can also promote civic action, engaging employees in charitable activity to raise funds for a

\(^5\) Our HeadSmart campaign, which raises awareness of the signs and symptoms of brain tumours, was developed with the University of Nottingham in response to a lack of public awareness of the disease. Since its launch, the campaign has helped to reduce average diagnosis times from 9.1 weeks in 2011 to 6.7 weeks in 2014.

\(^6\) [https://www.thebraintumourcharity.org/media/filer_public/94/6d/946d8473-2e1a-4f36-ac2a-0a989a176226/losing_myself_the_reality_of_life_with_a_brain_tumour.pdf](https://www.thebraintumourcharity.org/media/filer_public/94/6d/946d8473-2e1a-4f36-ac2a-0a989a176226/losing_myself_the_reality_of_life_with_a_brain_tumour.pdf)
cause. In some cases, the choice of charity to partner with is based on the experience of an employee who has been affected by a particular condition or life experience. Many of these partnerships help a charity to directly meet its strategic objectives - in our case, a recent fundraising challenge completed by a major donor and colleagues from Goldman Sachs has funded a new paediatric brain tumour research centre.

1.8 Other partnerships are based around the sharing of equipment or expertise, which are provided to a charity at a lower cost or no charge at all – for the last four years, our partnership with Bluecube Technology Solutions has provided IT support (to a value in excess of £120,000 per annum) at no cost which has helped the Charity to focus spending on research and services.

1.9 Since 2013, The Brain Tumour Charity has organised annual 10km “Twilight Walks” in town centres across England, which engages local people from the regions around Warwick, Windsor and Chester to walk together for a cause. We have gone into greater detail about how partnerships between local charities can build community cohesion in answer to question 2.

- **How does the sector benefit from volunteering?**

1.10 Volunteers increase our capability to deliver on our objectives, taking on roles that allow for paid staff to focus on their key areas. They can also increase the quality of our services by offering skills and experience which paid staff may not have, or in some situations, where a charity is unable to recruit someone for a paid position.

1.11 At The Brain Tumour Charity, volunteers provide administrative support for our research, support and information and fundraising teams, and help to pack merchandise orders which are distributed across the UK. Volunteers also represent the Charity at major fundraising events, allowing us to run those engagements successfully and safely.

1.12 The majority of our volunteers are personally affected by a brain tumour, and their contribution to our work brings paid staff closer to the cause.

1.13 At The Brain Tumour Charity, we have a number of specialist volunteers who use their expertise to further provide feedback on specific elements of our work. For example our Scientific Advisory Board is responsible for assessing and rating research applications, and is formed of 10-14 academic members and two patient representatives, who are all volunteers. The Board’s membership provides us with access to specialists whose experience helps us to assess the quality of research projects, and gives the Charity the credibility of being aligned with experts in the field. These volunteers also hold the
recipients of our research grants to account, monitoring their progress and that the research continues to represent the best value usage of donor funds. 37

1.14 Finally, trustees and board members of most charities are volunteers, and as a governing body that holds the leadership of charities to account, their service is crucial to the impact of a Charity’s work.

- How has the status of volunteers changed?

1.15 Volunteering is becoming increasingly professionalized, a development that can be compared to fundraising as competition for time and money has increased across the charity sector. However, as the consultancy NFP Synergy has pointed out, there is no trade body equivalent to the Institute of Fundraising for volunteering which offers opportunities for professional development and qualifications. 38

1.16 For younger people starting out in the job market, more importance is attached to volunteering experiences that provide skills desired by employers for permanent employment. Evidence from younger workers in the Millennial Impact Reports has highlighted how companies that provide an opportunity to get involved in community outreach or “cause work” are more likely to retain staff over the longer term. 39 Charities must be receptive to these needs and tailor volunteering opportunities accordingly.

- What challenges do charities face in trying to fulfil their role in civic society?

1.17 Media attention on fundraising practices of major charities over the past year has contributed to a decline of public trust in charities, falling from 71% in 2014 to 57% in 2015 40. The risk is that in rectifying these issues, charities will have to devote more time in future ensuring compliance with regulation, allowing fewer resources to drive innovation in the sector or meeting need.

1.18 There has also been more scrutiny around staff pay, particularly at a Chief Executive level, with calls for a greater proportion of donations from the public to be spent on frontline services. This scrutiny could provide challenges in charity recruitment for highly talented staff, given that the sector already faces competition from private sector employers who can offer higher salaries.

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37 https://www.thebraintumourcharity.org/our-research/for-researchers/grant-review-and-monitoring-committee/
1.19 The Lobbying Act has created legal uncertainty for charities about the extent to which they can campaign in the run-up to regional and national elections. Our supporters and donors want us to be active in campaigning for change, whether it be in encouraging the Government to promote awareness of brain tumour symptoms or by increasing access to new and innovative treatments. This legislation, whilst well intentioned, has created an additional regulatory burden on many charities who receive no public funding and do not spend close to the campaign limits set by the Electoral Commission.

1.20 Charities must also be responsive to the changing support needs of beneficiaries, something that is particularly challenging with the pace of technological change, which affects the way people wish to access support and information services. Given the limited resources that charities have compared to the private sector, there is a real challenge in attracting the right people who can help the third sector to meet those changing needs.

1.21 As charities grow in staff numbers and their fundraising base, they naturally have to change their operations, and there is the risk that they become more removed from the cause and their donors at a grassroots level.

- **How can these challenges be overcome?**

1.22 One way that charities can help meet the changing needs of beneficiaries is by consistently seeking feedback about what matters to them. Over the last year, The Brain Tumour Charity has launched two studies, looking at the impact on quality of life that a brain tumour has on adults and young people. This has helped to identify areas like access to financial advice where we need to change our services to meet unmet need. With people increasingly looking online to find community and support, we have been developing our digital platforms to engage more people, such as Facebook groups and webchat which can be tailored to the individual’s situation. With effective monitoring, these groups can provide people with the space to raise questions or concerns, receiving support from Charity staff and the online community.

1.23 Secondly, an effective, committed board of trustees is important to helping charities fulfil their purpose. Recruiting trustees with experience of reputation management could help to identify potential risks to a Charity’s integrity and trust among its supporters. In larger organisations, trustees must make an attempt to participate in the life of a Charity’s work by meeting with beneficiaries and staff, something that will help to build their knowledge of its operations and allow for more considered decision making.
2. What are the main pressures faced by charities currently, and what impact have these had?

- What opportunities do charities have in the current environment?

2.1 Against a background of funding cuts to local and national services, charities have the opportunity to fill the gap in service delivery to meet unmet need. Within health and social care, the NHS faces major challenges in workforce planning and recruitment for different healthcare professionals in different positions as the demand for health and social care increases, and budgets are constrained.

2.2 In this climate, the voluntary sector has an opportunity to take on a greater role in health and social care workforce provision, filling some of those gaps by directly recruiting healthcare professionals. Macmillan Cancer Support currently has 3,942 nursing posts across the UK, both in hospitals and the community, and even though some of those healthcare professionals are eventually funded by NHS Trusts, the charity is an established part of the NHS workforce.

2.3 To address unmet need in our own community over the next year, The Brain Tumour Charity is considering whether to provide funding for a limited number of healthcare professional posts, so that more patients have access to the support they need. Without this investment from the charity sector, many patients would not benefit from the experience and advice of healthcare professionals who can help to coordinate their care.

2.4 However, policymakers need to clarify the correct balance between central government provision and voluntary sector provision. This is particularly important in areas such as workforce, where the expectation behind charity investment in staff (i.e. clinical nurse specialists) has often been that Trusts or Clinical Commissioning Groups will provide a greater share of funding after a defined period.

2.5 Other opportunities lie in expanding support and information services, responding to unmet need and forging partnerships with other organisations. For example, surveys of those personally affected by a brain tumour showed that many brain tumour patients felt there is a lack of support around financial advice and relationships.

2.6 In response to this, we have recognised the need to better support people in these areas, and have forged partnerships with other charities such as the Citizens Advice Bureau and One Plus One. Bringing on board external expertise in an area like financial advice means that we can help beneficiaries with benefit applications and obtaining additional support that improves their quality of life. By delivering services in an

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41 https://www.thebraintumourcharity.org/media/filer_public/94/6d/946d8473-2e1a-4f36-ac2a-0a989a176226/losing_myself_the_reality_of_life_with_a_brain_tumour.pdf
innovative way, these partnerships between charities can positively influence the way the public sector delivers services.

- **Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?**

2.7 As a Charity that funds medical research, the result of the EU referendum in June has created uncertainty on access to EU research funding streams and fundraising. Whilst the UK Government has committed to guarantee EU research grants for Horizon 2020 (FP7), there is concern that the UK’s ability to influence the shape of the next Framework Programme (due to start in 2021) will be reduced, and changes to free movement could have a negative impact on the ability of researchers to access funding.

2.8 To use one example, the Samantha Dickson Brain Cancer Unit at the UCL Cancer Institute was able to leverage £1.7 million further funding from the European Research Council after initial investment from The Brain Tumour Charity into their projects. By expanding the capacity of research work at the Unit, the team at UCL has been able to translate their findings into a clinical trial.

2.9 As the AMRC has highlighted, charities could not make up this shortfall, and there is concern that the UK Government would not be able to guarantee the level of funding currently leveraged by HEIs and researchers from the EU. In an area of research like brain tumours, international collaborations between institutions is critical to delivering progress, and these collaborations have been underpinned over the last decade by the European Union.

2.10 The referendum result could also have on the ability of medical research charities to raise sufficient funds to continue research projects and expand funding calls. For many of our supporters, the attraction of giving a donation to The Brain Tumour Charity comes from the understanding that it will help to fund the research work carried out in the UK and abroad.

3. **How do charities seek to innovate, particularly in the digital arena?**

- **What more can be done to promote innovation, and by whom?**

3.1 The vast pace of technological change and innovation, particularly in areas like apps and virtual reality makes it very challenging for charities to respond early enough to understand and apply the technology in a way that will assist beneficiaries. Therefore,
tech companies should be encouraged by greater tax reliefs and incentives from Government to collaborate with charities to design health applications that can help improve quality of life for patients.

3.2 One recent example of such collaboration in action has been the partnership between Oxfam and the augmented messaging app Traces. This new campaign will see reality portals placed at 650 UK retail locations, allowing people to use their mobile phones to learn more about the charity’s work or even make a donation.

- **What barriers are there to being innovative?**

3.3 Although the rise of digital marketing has meant that it has never been easier to get your message out and be visible, the charity sector faces challenges in the recruitment of staff with digital skills, given salaries on offer compared to similar jobs in the private sector. In the past, there was more defined roles in both sectors which meant that charities rarely competed for employees within the same recruitment pool.

3.4 There is also a need to develop digital skills among existing charity workforce, particularly in the use of social media, so that staff members can deliver content on the networks that beneficiaries are using online. For smaller charities, this is challenging, with less capacity to train staff in these skills.

3.5 In the case of social impact bonds, New Philanthropy Capital has suggested that investors and commissioners have tended to pursue proven interventions, rather than back something new and innovative. This leaves the bonds open to charge they are an expensive way of pushing through known intervention or programme.

3.6 Additionally, greater scrutiny about charitable spending from the general public and the need to evidence impact of the work that charities do could reduce the willingness of the sector to take risks and try new ideas, especially where large, up-front investment is required.

6. **How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

- **What, if any, changes might this mean for current arrangements?**

6.1 The main way that charities can ensure accountability is by having a robust budget in place which is reviewed on a regular basis, maintaining a respectable cost ratio (with 80p out of £1 raised going towards charitable objectives) and complying with the Fundraising Code of Practice.
6.2 Charities need ensure that supporters understand the direct impact of their donations and that they are transparent about spend. They can do this through online channels and by promoting documents such as annual reports which evidence where money is spent and how it makes a difference. This may also mean educating beneficiaries, donors and the general public about what non-charitable spend goes towards, for example by highlighting the valuable role of office staff to a charity’s work.

6.3 Upcoming changes to fundraising regulation are creating uncertainty for charities, particularly around the ability of donors to exercise greater control over opting in and out of fundraising communications. There is great concern that more people are likely to not tick the “opt-in” box, reducing the overall number who can be contacted again. This reduction could be exacerbated by the launch of the Fundraising Preference Service next year, where people can elect not to be contacted by a charity at all, which would likely mean that as well as not receiving fundraising specific communications, they will not receive potentially helpful information about services or information for campaigning purposes. We are concerned that the changes will mean that greater resources will be required to comply with regulation, particularly on the requirement that charities having able to evidence more strongly that they have taken steps to avoid contacting vulnerable people.

6.4 For charities like ours which fund research, accountability means following recognised processes such as the peer review methods recommended by the Association of Medical Research Charities (AMRC). Peer review helps to eliminate any potential conflicts of interest and requires researchers from across the World to evaluate the quality of research proposals gives us credibility in the field, ensuring that we extract the greatest value for money for our supporters and donors.

6.5 Likewise, our accreditation with membership bodies such as the Information Standard helps to build confidence and credibility in the support and information services we provide.

6.6 Recently, we have conducted a study of over 1,000 people to understand the impact that a brain tumour has on quality of life. The feedback on the support and information that those personally affected have received, or would like to receive, has informed some of the changes that we have made to aspects of our support and information services.

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

• How can these challenges be overcome?
7.1 A measure that would have significant impact in terms of financial sustainability would be the removal of the requirement to pay VAT.

- **What can best practice and information be shared across the sector?**

7.2 Information is best shared through member organisations such as the Institute of Fundraising, who can have the capacity to monitor the landscape around regulation, and more specialist bodies like the Association of Medical Research Charities (AMRC), who have a stronger understanding of the needs facing charities who invest in medical research

- **What lessons can be learnt from past mergers or dissolutions of charities?**

7.3 Over the last twenty years, gradual consolidation among brain tumour charities has helped to enhance the scope of research, support, information and fundraising for the cause of helping people personally affected by a brain tumour and finding breakthroughs to tackle the disease.

7.4 In its current form, The Brain Tumour Charity was forged by a merger of three smaller charities based in different parts of England: Brain Tumour UK, Samantha Dickson Brain Tumour Trust and Joseph Foote Trust. This merger ensured that we are the largest charity dedicated to fighting brain tumours in the UK, but there are still over 50 charities for this purpose still in existence.

7.5 With regards to dissolutions of charities, the recent example of Kids Company highlighted that there is very little consequence of failure within the sector beyond reputational damage. In the case of Kids Company, there is a real sense that the organisation was simply too high profile for the Government to withdraw funding, despite major questions around its operations and leadership. Such scandals affect the reputation of the whole sector, making donors more reluctant to give towards charitable causes and sceptical about charities spending effectively.

7.6 As a regulator, the Charity Commission could not hold the leadership of the charity to account for its practices which helped to lead to its financial failure. Even before its demise, the leadership of Kids Company made big claims about the impact and reach of the charity’s work. But without an equivalent to the Trading Standards Board within the charitable sector, claims made about the work of certain charities cannot be challenged legally.
How can charities effectively deliver services and be assured that their work achieves successful outcomes?

7.7 The main ways that charities can ensure this is through constant evaluation and monitoring of existing projects, and setting clear performance indicators at defined periods. To ensure good value for money, if a service is consistently underperforming, charities should be prepared to change either the method it is delivered or remove it altogether.

7.8 Effective use of database programs like Salesforce can also help analyse the level of supporter engagement with a charity’s work, and the quality of that engagement. This can help charities to tailor their marketing and fundraising work in a more effective way to accomplish their chosen outcomes. Linking objectives in staff member appraisals to initiatives in a Strategy document can also help to highlight specific outcomes for the Charity that an employee is working on.

8. What is the potential of social investment and social impact bonds?

8.1 Social investment has the potential to accelerate research for a range of different conditions which charities fund. The Dementia Discovery Fund was launched last year after receiving investment from a charity, Alzheimer’s Research, the Department of Health and major pharmaceutical companies.

8.2 The objective of the Fund is to explore new ideas in dementia research, accelerate the discovery and development of new treatments for dementia and encourage further global investment in dementia research. This form of investment has the potential to drive forward medical research and ultimately benefit patients with better treatment options. Drawing on this example, The Brain Tumour Charity is currently launching our own Venture Capital fund in an attempt to accelerate brain tumour research globally.

8.3 Social impact bonds have the potential to reduce costs and improve the social outcomes of public services, based on the “payment by results” contract. It provides an up-front funding mechanism for the charity that should incentivise the partnership to work, and allows a charity to expand its funding base – attracting those looking for both a financial return and philanthropic benefit.

What are barriers to fulfilling their potential?

8.4 In the area of health, social impact bonds need to demonstrate a measurable improvement to the NHS in a short space of time, and this could be a barrier to such projects being approved. This pressure to deliver an almost instant return on investment
would make it challenging to providing upfront funding and creating the “payment by results” element of the contract.

8.5 However, even when successful interventions are found through social investment, there is the challenge of scaling up projects, something most charities struggle with, with the challenge of raising more grants and donations to do so. Rigorous evaluation to measure the progress of social impact bonds is vital to understanding how effective a programme is, with proper control groups or baselines needed to compare progress.

8.6 Finally, there is a need for best practice and information about the use of social investment and social impact bonds to better shared across the charity sector. This will help charities to learn from the experience of others and successful models that already exist. For example, in response to issues of homelessness, there have been a number of projects bringing together social investors and charities to expand accommodation for homeless people.

9. What should the role of Government be with the sector?

9.1 The main role that Government should play is to provide incentives (including tax reliefs and deductions), and develop institutions to empower charities and social enterprises to flourish as independent organisations in civil society. This should be driven by the Office for Civil Society in the Cabinet Office.

9.2 There are two key examples of where Government action has assisted charities in the last six years. Firstly, the creation of Big Society Capital, a financial institution (now independent) which provides finance to charities and other not-for profit organisations to help them scale up projects with a social purpose. This has helped to expend the social investment sector in the UK and allowed charities and social enterprises to increase the capacity of their work.

9.3 Secondly, the introduction of social investment tax relief, a Government tax relief for social investment meant to encourage individuals to support social enterprises and help them access new sources of finance. The Office for Civil Society should consider ways to further incentivise charitable giving and philanthropy through the tax system.

9.4 In respect of research, the Charity Research Support Fund (CRSF) is a good example of where Government spending has helped charities to leverage additional investment in research at UK universities. This investment, which provides support to institutions that are successful in winning grants from charities of all sizes, helps to ensure that universities are incentivised to seek charity investment.

9.5 We would also like to see Government departments establish a consistent approach to engaging with charities in consultation on different policy proposals. As organisations
that consistently work with patients affected by health conditions, we are well placed to understand how public policy will impact on those who will be directly affected by changes to NHS services.

9.6 An example of this was when reforms to the Cancer Drugs Fund were proposed back in 2014. NHS England highlighted its desire to work closely with the charity sector to help shape the proposals, and a CDF Charity Coalition was set up to facilitate this. Before a public consultation was launched, a number of work streams were established to focus on different aspects of the Fund, with membership including NHS England staff, pharmaceutical industry personnel and charities.

9.7 Whilst there were shortcomings in this process, with some charities feeling that their input was disregarded in the final proposals, it did demonstrate how Government agencies can work in partnership with the charity sector can be constructive, and departments should learn from this experience.

- **What should be the role of local Government?**

9.8 The role of local government should be to partner with charities to ensure that statutory duties to promote public health are delivered. With budgets constrained, Directors of Public Health need to work with local and national charities to avoid duplication ensure that charity information resources, either seeking to raise awareness of a condition or advice about seeking treatment, are supplied in local health centres and GP surgeries.

9.9 There is also a need for more local authorities to make use of the Social Value Act 2012, which requires commissioners of public services to consider the social, economic and environmental benefits when buying services above a certain financial threshold. This means consulting more with the users of local services and charities that represent them on where funding for services should be spent.

- **What should be the role of the Charity Commission?**

9.10 At present, the Charity Commission is able to open inquiries into allegations of illegality, but we would like to see strengthened powers for the Commission to hold charities to account for their actions. In a similar way to Ofsted or the CQC, this would mean the ability to recommend further intervention in the running of an organisation or change in leadership following complaints of mismanagement or misappropriation. Indeed, as stated above, an equivalent of the Trading Standards Board within the charitable sector would mean that erroneous or exaggerated claims made about the work of charities could be challenged legally.
• What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?

9.11 One of our strategic aims is to ensure that all brain tumour patients have equal, universal access to the best treatment and care across the UK. However, navigating four different healthcare systems in the UK, along with varying structures within the English NHS means that it is increasingly difficult for charities to influence change for patients on a truly national scale.

9.12 At present, the different structure of the NHS in Scotland, Wales and Northern Ireland, and different metrics used to measure patient experience and outcomes makes it very challenging to compare healthcare systems from one country to another. Greater devolution of health and social care in England could make it even harder to compare outcomes across the country.

9.13 Despite this, it is clear that under a more centralised healthcare system in England, there is significant variation in the quality of care provided and the health outcomes achieved. Over the last three years, brain tumours have regularly ranked in the bottom four cancer types on a range of metrics in the National Cancer Patient Experience Survey.

9.14 If decision-making powers over the allocation of health and social care budget are devolved to more city regions/combined authorities, this could provide service charities with an opportunity to influence where money is spent, and make the case for unmet need to be addressed at a local level.

9.15 Combined authorities will be comprised of directly-elected politicians, rather than healthcare professionals (as is the case with CCGs and Health and Wellbeing Boards), which may provide greater accountability for those bodies to be responsive to the views of voluntary sector groups in the local region on where spending priorities lie.

9.16 There are also national frameworks that are designed to ensure that patients have equal access to care wherever they live. For example, the NHS Constitution, which enshrines patient rights in the NHS wherever they live in England, places an accountability on all healthcare providers to provide a minimum standard of care on certain measures.

• What are the opportunities and challenges associated with local devolution?
9.17 For the charity sector, the key challenge of local devolution will be how to engage with the new structures to influence policy. The delegation of powers over health and social care budgets in Manchester has created a new level of bureaucracy (the Combined Authority), and it remains to be seen whether those structural changes can deliver better efficiency or health outcomes.

9.18 Within health and social care policy, charities have been used to working with national stakeholders and greater devolution will require engagement at a more local level, something that could be harder for smaller charities with less capacity. To influence policy in combined authorities/city regions, charities will have to build alliances at a regional level in England and develop a common set of asks to the health and social care system. This would only be replicating alliances that have been developed by charities to influence policy at Westminster, Holyrood, Cardiff and Stormont.

9.19 The biggest challenge for policymakers is how much freedom local areas should have to differ from national policy, and whether accountability of the health and care system to national regulation will shift to regional bodies over time. Evidence-based guidance from NICE is meant to be applied by all Trusts and CCGs across England. However, if structures are changed, NICE should try and adapt its guidance to reflect the changing realities of NHS care in different regions.

9.20 Devolution of health powers would provide more opportunities if local city regions had the power to raise revenue themselves, so that they can invest in prevention. One of their recommendations is that local authorities should have the ability to establish devolved health taxes to raise revenue, and also incentivise certain behaviours if a region is affected by a particular disease.

9.21 At present, a major restructuring of local government in England is taking place. Some county councils, such as Oxfordshire and Hampshire are considering a move towards unitary status, which could have an impact on charities shaping local public health services. Should there be further fragmentation of public health provision, this could affect the capacity of smaller, local charities to affect change for a disease area on a wider scale.

8 September 2016
1. Who are we

1.1. We are the national church and charity working on behalf of Quakers in Britain (also known as Friends). We represent Quaker meetings in England, Wales, Scotland, the Channel Islands and the Isle of Man.

1.2. Quakers worship in local meetings (477), grouped together into area meetings (70), the level at which individual membership (c.14,000, plus a further 10,000 attenders) is held. Local and area Quaker meetings manage their own affairs and own their own property; each area meeting is a separate charitable entity with its own trustees. Members of these area meetings make up the membership of the Yearly Meeting of the Religious Society of Friends (Quakers) in Britain (Britain Yearly Meeting), a body that meets annually and that has ultimate authority for church affairs.

1.3. Britain Yearly Meeting is also the name of the charity that implements the Society’s central policy, owns its property, employs its staff and directs its work. The charitable object of Britain Yearly Meeting is “the furtherance of the general religious and charitable purposes of the Religious Society of Friends in Britain and beyond”, which are to sustain the church & faith; support Quaker meetings; promote Quakerism; and to put faith into action. We work for peace and justice, environmental sustainability, the alleviation of suffering, and the upholding of victims of oppression, as well as supporting the worshipping life of the meetings which make up our Quaker community in Britain.

1.4. As part of the family of churches and other faith groups in Britain, we work extensively with other groups, charities and NGOs in taking our work forward. In this submission we seek to add a Quaker perspective to the submission made to you by the Churches’ Legislation Advisory Service (CLAS) on behalf of this wider community of faith organisations, which we endorse.

1.5. Recent research by New Philanthropy Capital shows that Quakers and Quaker-led organisations have made a substantial and distinctive contribution to the charity sector over many years (http://www.thinknpc.org/our-work/projects/faith-based-charities/), on a scale which is disproportionate to our relatively small numbers.

2. Question 1: The purpose of charities

2.1. Changing role and purpose: The role and purpose of charities has changed considerably over time as the needs of society have changed. Religious charities such as churches operate in an increasingly secular society with the challenge of representing of the views and concerns of their members in wider civic society, while demonstrating a wider public benefit. The public perception of charities and to a certain extent that of the Charity Commission is shaped by a view of charities as providing a service to a group
of beneficiaries. As a church, which is a membership charity, our relationship with our beneficiaries is complicated by the fact that our driving purposes arise both out of a religious conviction as well as in a response to social need; our beneficiary groups may overlap or be distinct depending on the breadth of our charitable purposes. We believe it is important to maintain a more differentiated perception of the nature and range of charitable organisations, and not to assume that the sector is, or speaks as, a homogeneous group.

2.2. Challenges: The increasing burden of regulation and legislation on charities, especially in light of the Charity Commission’s repositioning of itself as a regulator where it once also acted as an expert advisor to charities, is a challenge for the Religious Society of Friends. We are volunteer-led and those volunteers respond to a religious conviction and calling to provide service. Governance structures as a product of religious practice do not always map easily to the charity and other legal frameworks, and it can sometimes be hard to adapt Quaker ways of working to the wider legislation affecting generic charity trustees or employees. In particular, Quaker decision-making practices rest on the practice of reaching unity together through a process of discernment of God’s will involving all those present at a meeting for business; we do not vote, nor do we recognise the concept of a quorum, believing that God will speak to us through those present. Minutes are made and agreed in the meeting as it progresses.

2.2.1. Where religious charities such as ours respond to an issue as a result of religious conviction, it can be difficult to negotiate legislation such as the Transparency of Lobbying Act and any successor regulations, which have been drafted with other entities in mind. Since the early days of the Quaker movement, Friends have been impelled by faith to speak out on peace and social justice; whilst we recognise the need for transparency, we cannot accept any attempt to restrict us in speaking our religious truths.

2.2.2. As volunteer-led charities, there is often insufficient resource to support the necessary compliance tasks and to facilitate working across multiple regulators (primarily the Charity Commission for England & Wales, OSCR, Companies House and the Electoral Commission), and there is often a perception that these activities divert resources from our primary activities. While Quakers have a commitment to transparency and accountability, we also have a commitment to simplicity which does not always sit comfortably with the increasing complexity of legislative compliance.

3. Questions 4 & 5: Governance and leadership, and the role of trustees

3.1. The regulatory aspects of the trustee and leadership role are challenging to our governance structures which arise out of Quaker religious practice. There is an underlying assumption that only certain individuals can take certain kinds of responsibility, whereas within the church service is offered as part of a religious conviction based on an equality of status and a commonality of responsibility and action.

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3.2. All our governance roles must be filled by members of the church. The amount of regulation is a particular challenge for Quaker meetings, where all roles are undertaken by volunteers (Quakers have no paid laity) who bring with them a diversity of existing experience and understanding about charity legislation and regulation. Of our meetings, 48% have a membership of 20 or less; the average age of a Quaker meeting member is 64. As for many other charities, the lifting of the statutory retirement age will have implications for our ability to find suitable office-holders; these are already in short supply in many of our meetings.

3.3. What Trustees need is access to easily understandable and accurate advice; while there is a wealth of useful information and guidance on Charity Commission website, accessing it assumes both online access and ability which may not be prevalent in the demographic of our church. The sheer volume and the tone of language can be daunting for volunteers, who also by their nature have a limited amount of time to engage with the information.

3.4. As the Charity Commission for England & Wales has transitioned away from its advisory and supportive functions, umbrella bodies such as Britain Yearly Meeting have had to devote increasing resources to providing the required support to volunteer trustees. We note there is a difference in role and tone of the charity regulators North and South of the Scottish border, which is an additional challenge for cross-border charities to negotiate.

2 September 2016
1. **Introduction**

1.1 The British Heart Foundation (BHF) is the largest independent funder of cardiovascular research and the third largest charitable funder of medical research in the UK. We are working to achieve our vision of a world in which people do not die prematurely or suffer from cardiovascular disease. In the fight for every heartbeat we fund ground-breaking medical research, provide support and care to people living with cardiovascular disease and advocate for cardiovascular disease to be a priority.

1.2 Each year, thanks to the generosity of our supporters, we aim to fund around £100 million of new research across all four nations of the UK, which accounts for more than half of the funding for cardiovascular research in the UK. Our funding portfolio extends from laboratory science to clinical trials and population studies. We fund people from PhDs to professors as well as investing in large programme and project grants.

1.3 Due to modern treatments built on our research, huge progress has been made in saving lives. Most babies born today with heart defects survive and 7 out of 10 people survive a heart attack. But cardiovascular disease still kills 1 in 4 people and affects 7 million people in the UK, so there is so much more to do.

**Summary**

1.4 The BHF welcomes the opportunity to submit evidence to the House of Lords Select Committee on Charities and is pleased to contribute to shaping the debate around the longer term sustainability of the charitable sector in England and Wales to enable it to continue to thrive.

1.5 The BHF’s key messages are:

- The need to recognise medical research charities’ unique and vital role in supporting game changing breakthroughs in treatment and care for people living with conditions such as heart disease and the global reach of their impact
- The vital role of Government in supporting public investment in scientific research, the need to increase the Charity Research Support Fund in line with growth in charity investment and the importance of UK researchers retaining access to EU research funding
- The importance of striking a balance between increasing complexity of regulation, the burden of compliance and the public interest served by responsible fundraising and the need to ensure coherency in a fair and consistent regulatory environment
The role of the Charity Commission in advocating for the sector, in helping to reinvigorate and support the Trustee role and in being appropriately funded to do so, and the importance of the Government’s support in promoting a favourable environment for charitable giving in the UK.

2. Responses to Questions

2.1 The Purpose of Charities

What is the role and purpose of charities in civic society in England and Wales?

2.1.1 The BHF is proud to be part of the long tradition of the charitable and voluntary sector forming an essential part of fostering, creating and maintaining a strong civic society in the UK. The sector is uniquely placed to mobilise and support people and to undertake activities solely in pursuit of charitable aims and not for private gain or profit.

2.1.2 The voluntary and charitable sector makes a considerable contribution to the UK economy in terms of employment, volunteering and in the case of medical research charities, investment in scientific innovation and medical advancements. Medical research charities currently invest around £1.3bn per year into research, which equates to a third of all publically funded medical research in the UK. As such, they play a vital role in supporting game changing breakthroughs in treatment and care for people living with conditions such as heart disease. For over 50 years, the BHF has pioneered lifesaving research and improved outcomes and survival rates for people living with cardiovascular disease in the UK and beyond and we are proud of the progress we have made and the global impact our research continues to have.

2.1.2 As the sector grows in size and income, thanks to the goodwill and generosity of the public, so must modern charities adapt their governance, accountability and management structures to keep pace. In order to continue to operate effectively and efficiently in the modern social, political and economic landscape, larger charities, such as the BHF who employ over 3000 staff, work with over 21,000 volunteers and run the largest charity retail activity in the UK with over 730 shops, will need to invest in their growth to achieve the outcomes that their beneficiaries deserve, to continue to meet and deliver their charitable aims and ensure that they act as a key partner to government and industry in shaping modern civic society.

2.2 Pressures and Opportunities

What are the main pressures faced by charities currently and what impact have these had?
2.2.1. As set out in our Research Strategy, the BHF’s ambition is to invest half a billion pounds on life-saving research in the next five years and the evidence presented in this submission refers to the particular pressures faced by large medical research charities. This year, the BHF invested £107.2m in over 250 new research awards and there are currently over 1,100 active awards. Through partnering with other research funders and government, the BHF and other medical research charities can achieve great advancements in scientific innovations and outcomes for patients. Public investment in scientific research leads to economic growth through increases in private sector productivity and has positive economic and social impacts through successful collaboration between the academic and private sectors.

Medical Research Funding

2.2.2. We welcome the government’s commitment to protect the current £4.7bn per annum science budget until 2019/2020, and for the Prime Minister’s reconfirmation of this commitment in her recent letter to Sir Paul Nurse. Stable government commitment to investment in medical research will increase confidence, leveraging funding from charities and industry and means the UK will continue to be a world class centre for research able to attract the talent needed to fight for every heartbeat. However, as discussed in more detail below, the UK’s decision to leave the European Union means that the longer term funding landscape for research remains uncertain.

2.2.3. As the biggest funder of cardiovascular research in the UK, the BHF believes that a thriving higher education and research sector is critical to ending the premature death and suffering caused by heart disease. The Charity Research Support Fund (CRSF) distributed by the Higher Education Funding Council for England (HEFCE) supports world class universities and enables public donations to be spent directly on research, by covering overhead costs such as heating and lighting. The CRSF is crucial to enabling charitable investment in medical research but has not been keeping pace with the increase in the rate of charity investment. For the fund to be effective, it needs to increase in line with charity investment.

2.2.4. The BHF is working with stakeholders from across the research and science sector to ensure the Higher Education and Research Bill 2016 progresses in the best interests of medical research. Specifically, we are keen to ensure that the Research Councils can continue to collaborate and joint fund with organisations such as ours, that Research England is able to work effectively with its counterparts in the devolved nations, and that the dual-support system and the Haldane principle remain central to the UK research funding system.

Brexit
2.2.5 The referendum result for the UK to leave the European Union will have a significant impact on the future landscape for medical research in the UK and the BHF is concerned about the potential impacts on research funding, people and talent, and regulation.

2.2.6 The EU is an important part of the funding mix for medical research in the UK. Between 2007 and 2013, the UK received 8.8 billion euros for UK research and development, having contributed 5.4 billion euros over the same period. The UK obtains the second highest financial contribution across all EU member states from Horizon 2020 (the current EU research and innovation programme, 2014-2020) and the value of such programmes derives not only from the money they offer, but also from the consistent long-term funding which they provide. While the BHF itself does not receive funding from the EU, many of the researchers that we fund also receive EU funding to support their work.

2.2.7 The BHF welcomes the Government’s recent commitment to underwrite Horizon 2020 funding approved before any exit from the EU however; this still leaves uncertainty in the longer term. The BHF strongly supports the need for UK researchers to retain access to EU research funding, particularly the Framework Programmes, after leaving the EU.

2.2.8 Research is an international undertaking and is hugely collaborative. The BHF is concerned about the potential impact of changes to immigration rules on the ability of researchers to collaborate freely and the UK’s ability to attract international talent. The BHF would like to see existing ease of movement maintained for researchers and relevant skilled professionals (for example lab technicians and informaticians) between the UK and the EU.

2.2.9 Much of the regulatory framework that governs medical research currently comes from the EU. In order to collaborate to the fullest extent, there will be a need to ensure that UK and EU regulation remains aligned. The BHF believes that it is critical that the UK research community is consulted and involved in discussions on the future of research regulation and that an emphasis is placed on the alignment of regulation between the UK and the EU.

**Fundraising Regulation**

2.2.10 The BHF is almost entirely reliant on public donations to fund its lifesaving and pioneering research and does not directly receive any government funding for its research via contracts or otherwise. Without the support of the generous British public, the BHF would simply not be able to carry out its work and we therefore take our responsibilities to our supporters very seriously. The reputational damage of negative press coverage and the uncovering of isolated instances of mal practice
have had a negative impact on public trust and confidence in the sector, joined by uncertainty in the economic outlook following the Brexit vote which has placed significant pressure on public fundraising.

2.2.11 Charities are the bridge between donors and beneficiaries, allowing the generous British public to help those people and causes they care about. The BHF is committed to ensuring that the charity sector values long-term relationships with donors and upholds a duty of care by charities to their supporters. We welcome the measures taken to improve the self-regulatory regime of charitable fundraising and support the Fundraising Regulator and the establishment of the forthcoming Fundraising Preference Service. However, instances of malpractice in charitable fundraising are by far the minority and the BHF is concerned that the implementation of stricter controls must not disproportionately constrict a charity’s ability to develop relationships with donors and raise funds to carry out its charitable aims. Proposed and forthcoming regulatory initiatives in the charity sector, whether statutory or voluntary, should be subject to a thorough impact analysis, in line with Better Regulation principles to ensure that the added costs of compliance are properly understood and are commensurate with the public benefit which the regulation will deliver. The significant compliance costs in terms of internal operational changes, subscription and registration costs for new bodies, set against the projected reduction in charitable income over the coming years indicates that the overall impact to the charitable sector is substantial and requires rigorous cost-benefit analysis, both ex ante and ex post.

2.2.12 Charities must be permitted to ‘ask’ in order to raise funds for their charitable purpose and it is imperative that the sector seek to maintain and develop robust, defensible and high standards in fundraising practice in order to increase and maintain public trust and propensity to give. However, effective and efficient coordination and collaboration by the various regulators is also an imperative in an increasingly crowded regulatory environment to ensure that there is avoidance of duplication, disproportionate costs and impediments to approaching potential donors appropriately. The Charity Commission and the Fundraising Regulator will provide an effective, robust and strong regulatory framework against which the forthcoming Fundraising Preference Service should be balanced and they should have the capacity to foster good governance and a culture of compliance, alongside championing the sector and advocating for the robustness of sector regulation. The BHF welcomes clear, consistent guidance and support from all the relevant bodies, including the Charity Commission, Fundraising Regulator and the Information Commissioner’s Office to ensure coherence and stability. The changes made to the regulatory regime should now be allowed to bed in and work unimpeded by further intervention.
2.2.13 For charities operating cross border, such as the BHF, the regulatory regimes in Scotland and Northern Ireland are different to those in England and Wales and changes to those regimes in the nations pose additional compliance and potential financial burdens. The BHF therefore supports the establishment of a single fundraising regulation regime that operates across borders to ensure consistency, stability and clarity for both the public and charities.

**Apprenticeship levy**

2.2.14 The BHF is working with other charities and sector partners to prepare for the introduction of the Apprenticeship Levy in April 2017. However concerns remain that the sector must be able to benefit from the considerable sums that it will be required to pay into the scheme and that the sector can meaningfully use these funds to increase skills in the sector. The restrictions placed upon the use of the funds contributed via the Levy, including that volunteers are not able to be classified as apprentices, that funds cannot be spent on salaries or administration costs and that the expiry date of funds will not be permitted to be extended for charities to allow for the establishment of suitable training schemes, present an additional financial burden for charities and a diversion of funds away from charitable aims.

2.3 **Innovation**

*How do charities seek to innovate, particularly in the digital arena?*

2.3.1 The BHF is proud to be innovative in its approach, in leading the way in models of care and in funding innovative research which has been recognised nationally and internationally. This year, the BHF awarded £0.6m in its first round of Translational Awards to help support promising science and bring treatments to the clinical trial stage more rapidly to accelerate advances in cardiovascular science and also invested £1m into a programme that puts patients at the heart of their own care through the ‘House of Care’ model that supports patients to be equal partners in managing their healthcare. Charitable medical research and innovative approaches championed by the BHF are critical to the global advancement of medical treatment and care and the Government’s support via the CRSF is central to enabling this.

2.3.2 The BHF are innovative in our fundraising techniques also, through launching successful online mass participation campaigns via social media such as our ‘Dechox’ challenge and ‘My Marathon’ initiative. Stricter fundraising regulations must allow for innovation to continue thriving in the digital arena to permit charities to develop relationships with donors via the most appropriate mediums and to ensure that charities remain current with technological advancements as modern, effective and efficient organisations.

2.4 **Governance and Leadership**
What role should Trustees play in the performance and effectiveness of a charity?

2.4.1 The BHF’s ability to retain its position as the UK’s heart charity and the biggest funder of cardiovascular research is underpinned by strong, effective governance and leadership. We seek to build a world class organisation by growing income to fund the best research and end heart disease. We rely almost entirely on the generous support of our donors and it is vital that we protect this privileged position. For the BHF to continue its proud history of medical advancements it requires proper structures and processes to function. To ensure as much money as possible goes to fund research, proportionate steps are taken to invest in systems leading to longer term savings such as improved IT infrastructure and risk management processes. This investment in the operating framework should be supported and championed by the governance structures, including regulatory bodies, in order to secure a modern, efficient and effective charitable sector that can best serve its beneficiaries. The recruitment and retention of talented leadership staff, committed to the cause and able to use their expertise, knowledge and skills to fight for every heart beat is central to ensuring the charity operates at its best.

2.4.2 The BHF Board of Trustees is made up of 14 highly skilled volunteers who bring knowledge and insight from business, the voluntary sector and medicine whose breadth of experience ensure that the Board is well equipped to support the charity in moving forward with its strategic aims. The increased scrutiny and attention to charity governance over the past year has highlighted the extent of commitment, expertise and personal dedication involved for charity Trustees of large, modern charities generating significant income and expenditure. In an increasingly complex regulatory environment where the risk to individuals is heightened and where the nature of participation is voluntary, the ability to attract and retain such talent in time may be diminished. Regulation must strike a delicate balance between sensitivity to the purpose of the charitable sector and the burden of compliance. The recruitment and retention of suitable Trustees with the adequate experience and knowledge to help a modern charity to grow is of paramount importance to the effectiveness of a Board and the health of the sector as a whole. The BHF welcomes further investment from the Government via the Charity Commission to bolster the recruitment, retention and ongoing support of suitable Trustees and welcomes the opening up of a debate on a new interpretation of the modern Trustee role and what this entails in the light of recent changes and increased statutory responsibilities.

2.5 The role of government

What should the role of Government be with the sector?

2.5.1 The charitable and voluntary sector is a partner with government to encourage civil society, to contribute to economic growth, support the delivery of public services
and help to shape and influence public policy for the benefit of the many thousands of beneficiaries represented by the sector. Medical Research charities play an essential and unique role in the advancement of medical research in the UK and it is thanks to the expertise and knowledge of specialist charities, such as the BHF and its Professors and researchers that innovation and improvements in the NHS and further afield can be made to prevent people dying from cardiovascular disease and save lives across the globe.

**Role of the Charity Commission**

2.5.2 The charity sector has a vital and wide ranging role in public life. There is a need for a strong and authoritative voice of public advocacy for that role at times when isolated instances of questionable practice are given wide publicity. The public should be aware, for instance, of the ‘denominator data’; there are some 160,000 registered charities and some 190,000 unregistered, by exemption or exception.\(^{42}\) The advocacy role should be part of the regime of the Charity Commission, since it alone is positioned to give public assurance on the adequacy of regulation of the sector. The Commission is currently neither mandated nor funded for that task, which the BHF recommends should be remedied by a strengthened Press and Communications function. Regulation needs to respect the needs of donors both by protecting them from abuse and enabling them to give generously to causes they support by inspiring trust and confidence in the sector and in effectively communicating how a modern, effective charity operates to meet its charitable aims.

2.5.3 The new strengthened regulatory regime and the increased powers afforded to the Charity Commission and to the Minister for Civil Society to have ‘reserve powers’ to introduce statutory regulation have introduced a raft of new regulatory requirements and guidelines that Trustees must be fully conversant with in order to carry out their role effectively. There is an emerging regulatory complexity arising from multiple bodies having oversight of closely similar functions and the BHF welcomes the publishing of explicit Memoranda of Understanding between the various bodies, to give clarity and avoid duplication of effort by both regulators and those regulated. The BHF suggests that the Charity Commission is best placed to provide Trustees with comprehensive ‘induction’ training and effective ongoing training and support to understand apply and act on the statutory requirements set out by the strengthened regulatory regime.

**Legacy Giving**

2.5.4 £67m was raised through Legacy giving for the BHF in 2015-6 and this has funded almost half of the BHF’s life saving research. The BHF relies on these donations to

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\(^{42}\) "Regulating charities: a landscape review": National Audit Office briefing for the House of Commons Public Administrations Select Committee, July 2012
fund a world leading research programme so it is of great importance to the BHF and to the sector in general, that Legacy giving continues to be a chosen option for many in their wills. BHF partners with the organisation “Remember a Charity” to promote legacy giving and together, we encourage the Government to support and boost philanthropy by increasing incentives for solicitors and will writers to make their clients aware of this option and to include messaging about legacy giving in government led communications about will writing.

100% Retention of Business Rates by local authorities

2.5.5 As the largest charity retailer in the UK, the BHF’s 735 retail shops take the fight against heart disease into communities across the UK. Last year, an army of 21,600 volunteers and 2,900 staff worked to sell 66,000 tons of goods, raising £29.1m. Currently 80% mandatory charitable rate relief which is set centrally applies to our retail estate with a further 20% discretionary charitable rate relief able to be applied by local authorities. The BHF are successful in obtaining the discretionary relief in only around a fifth of cases. By the end of the current Parliament, local government will retain 100% of taxes raised locally via Business Rates and this will lead to a fundamental reform to the financing of local government. Given the severe reductions in local government funding, the BHF are concerned that consequence of full devolution of business rate retention to Local Authorities may result in further reduction in existing levels of mandatory and discretionary relief, which would have a devastating consequence on the sustainability of the charity retail sector, the vital funds it raises for charitable purposes and the wider social benefits it brings to the community.

13 September 2016
British Red Cross — Written evidence (CHA0162)

Questions answered:

1. What is the role and purpose of charities in civic society in England and Wales?

2. What are the main pressures faced by charities currently, and what impact have these had?

3. How can charities ensure that they are properly accountable to their beneficiaries, their donors and the general public?

4. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

Who we are:

The British Red Cross is a volunteer-led humanitarian organisation that helps people in crisis, whoever and wherever they are, in the UK and around the world. We are part of the International Red Cross and Red Crescent Movement, the world’s leading and oldest humanitarian movement which comprises:

- The International Committee of the Red Cross (ICRC)
- The International Federation of Red Cross and Red Crescent Societies (IFRC),
- and 190 national Red Cross and Red Crescent societies worldwide.

1. What is the role and purpose of charities in civic society in England and Wales?

Within this section, we have answered the following questions:

- What makes them distinct from other organisations doing similar work?
- What role can charities play in community cohesion and civic action?
- How does the sector benefit from volunteering?
- Briefly, how has this changed?

1.1. British Red Cross’s vision is of a world where everyone gets the help they need in a crisis. Our mission is to mobilise the power of humanity so that individuals and communities can prepare for, deal with, and recover from crises.

1.2. Voluntary service is one of the Red Cross and Red Crescent’s seven fundamental principles. We are a voluntary relief movement which believes volunteering is at the heart of community-building. It not only helps in the immediate crisis, but also empowers and brings people together in the longer term. In this respect, the overall impact of volunteering can persist far beyond the provision of aid in the immediate aftermath of a crisis.

1.3. Furthermore, our observation, based on almost 140 years of operational experience is that there is an innate understanding in the importance of civic
society in promoting another of our fundamental principles – that of humanity. Central to the humanity principle is the desire to prevent and alleviate human suffering wherever it may be found as well as to promote mutual understanding, friendship, co-operation and lasting peace amongst all peoples. We bring people together so that we can be more effective in our humanitarian work.

1.4. Our vision could not be realised without the passionate dedication of more than 21,500 volunteers and 4,100 staff working together for the British Red Cross. They help hundreds of thousands of people cope with all kinds of crises every year – from disasters and conflicts, to individual injuries and other personal challenges. Our people help both individuals and communities prepare for, cope with and recover from a range of crises.

1.5. For example, last year alone, British Red Cross UK-based services helped in the region of 112,000 people through our ambulance service, 27,000 refugees, 85,000 people to live independently at home, 100,000 people to access a short-term wheelchair, 250,000 people learn life-saving first aid skills and 16,000 through our emergency response service.

1.6. Volunteers remain the lifeblood of these operations, in which we work to create a society which is more resilient to crises when they strike. Indeed, many of our volunteers are former service users themselves. Those who once came to the Red Cross for emergency support now help others in the dire situation in which they once found themselves.

1.7. We tailor our volunteering offer to meet our different business needs and to suit different people. Volunteers are recruited for a specific role and a role description developed for each post. There is also a formal selection process. It is essential that all volunteers are appropriately skilled to carry out their chosen or allocated role. To this end, the British Red Cross offers an extensive range of training and development opportunities. This offer is a strategic approach in terms of our recruitment and retention.

1.8. We believe what makes our volunteering distinctive is that people get to give their time and talents in a way that is both meaningful for them and beneficial to our mission. Research carried out by the British Red Cross highlighting a number of motivations, triggers and barriers to volunteering showed that existing skills or training frequently influenced volunteers’ motivations. These skills also shaped the role they sought to occupy. For example, volunteers in event first aid had often previously attended some first aid training and consequently were keen to maintain those skills, while those entering the fire and emergency response or support at home unit often had an employment or experience background that complemented their voluntary role.43

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43 British Red Cross (2014) THE FUTURE FACE OF VOLUNTEERING: A RESEARCH STUDY, pg. 30
1.9. We see our impact as distinct from any other organisation operating in England and Wales on account of the diverse nature of the work that we undertake and its span of both rural and urban areas. We help people and communities recover from an emergency, provide practical and emotional support to refugees and asylum seekers, increase independence and well-being after a health crisis and support our partners overseas to prepare for and respond to crises.

1.10. In more rural areas, our volunteers help hundreds of people each year cope with the effects of severe flooding, supporting them as they start to rebuild their lives. This translated to just under 16,000 people being supported and offered comfort, a warm place to rest and advice, last year.

1.11. Our dedicated event first aid volunteers treated over 28,000 casualties at over 5000 events last year, from football matches to festivals.

1.12. Last year, almost 250,000 people learnt life-saving first aid skills through one of our courses. Our first aid education builds both individual and community resilience. It equips people with simple first aid skills that they will remember, builds their confidence to use those skills in an emergency and encourages people to step forward and help.

1.13. British Red Cross also provides invaluable support to people to help close the gap between home and hospital. We currently provide over 200 hospital and community services across the UK. Working in partnership with hospital trusts and Clinical Commissioning Groups (CCGs) we form part of a multi-agency response to help a person avoid entering hospital, or to leave statutory care more quickly. This year we will help over 200,000 people through our support at home services in addition to offering over 100 A&E discharge services across the country.

1.14. We also cover areas where there are gaps in statutory provision, such as with our vital short term wheelchair loan service that helped 103,810 people in 2015. As such, changes to the provision of statutory services have a direct effect on our service offer.

1.15. Over the last 140 years, our services have changed to coincide with the changing unmet needs of the population, and will continue to do so, so that we can ensure the needs of the most vulnerable in our society are met. For example, 2014 to 2015 saw a massive increase in the number of people using our refugee services across the country; an increase of 39% to support 27,645 people last year. The most common service delivered was destitution support, for those that could not meet their basic needs for food and shelter.

2. What are the main pressures faced by charities currently, and what impact have these had?
> Are there specific pressures affecting particular types of charity that you can highlight?

2.1. Fundraising amongst the public is vital in allowing the British Red Cross and our supporters to make an extraordinary impact on the lives of people in crisis. Over half a million members of the public regularly donate to us every year, and this continued and generous support allows us to plan and to rapidly respond to disasters across the world as soon as they take place.

2.2. We contributed to and welcome the findings and recommendations of the Etherington Review of fundraising self-regulation (2015). The changes it proposed and which we are seeing implemented, such as a stronger regulator, an independent Code of Practice and greater trustee involvement, are important steps to restore public confidence following instances of poor fundraising practice across the sector. We are committed to maintaining the highest standards in fundraising, which means continually improving our practices. We want to have an open and honest relationship with our supporters and to be as clear as we possibly can about how and why we would wish to contact them.

2.3. Further recent changes to our own fundraising practices to build on public trust and confidence include pausing our telephone fundraising for almost ten months to carry out a comprehensive internal review of our activity and create a new fundraising policy. This policy has been ratified by our board of trustees and includes greater monitoring and specific guidance on protecting people in vulnerable circumstances.

2.4. We have also signed a public undertaking with the Information Commissioner’s Office (ICO), which goes beyond the data protection requirements of the law and demonstrates our commitment to best practice. At the same time our trustees have become more involved in the oversight of fundraising by establishing a new sub-committee of our Board, responsible for fundraising quality assurance, and by introducing a standing agenda item for fundraising at each board meeting.

2.5. These changes within the British Red Cross are necessary, as are similar initiatives across the sector. However it is important to note that they will come at a significant financial cost as we limit our fundraising activities and the number of people we can approach to support our work. These costs are likely to compound as time goes on. As this fall in public fundraising income takes hold, there will undoubtedly be pressure on charities to make up the shortfall through other forms of fundraising or by reducing the services they deliver.

2.6. These funding pressures may be exacerbated by other issues such as the potential impact of leaving the European Union and the loss of EU funding to the sector (estimated at £200m a year). Last month, sector umbrella bodies, including the
National Council of Voluntary Organisations (NCVO) and the Charity Finance Group, wrote to the Chief Secretary to the Treasury seeking assurances that the European Social Fund and Horizon 2020 funding will be continued until 2020. We eagerly await a positive response from the Treasury.

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors and the general public?

6.1. We are accountable to the people who use our services, both in the UK and overseas. We are also accountable to the people who run those services, and those who fund them. Our accountability stems from our fundamental principles and values\(^{44}\), which underpin all we do and say.

6.2. We hold ourselves accountable to the people we help through our internal policies, as well as by signing up to international voluntary standards and codes of conduct, such as: the Code of Conduct for The International Red Cross and Red Crescent Movement and NGOs in Disaster Response\(^{45}\), the Sphere Project\(^{46}\), Press Complaints Commission (PCC) Code of Practice and the European Voluntary Service (EVS) Charter\(^{47}\).

6.3. Internally, we have developed a framework through which we put our commitment into action. We strive to be transparent. We monitor and evaluate our programmes, and encourage our service users to participate in programme design and delivery. Accountability to the people helps enhance the quality and impact of assistance. It also helps strengthen the resilience of the individuals and communities we support.

6.4. As part of this framework, the British Red Cross complaints policy outlines our commitment to effective complaints management. It also embeds how we learn from complaints to improve services, as well as ensuring that our complaints process is open and transparent to all.

6.5. In 2017 the British Red Cross intends to publish an impact report to demonstrate the difference we make for people in crisis against the outcomes described in our 2015-2019 strategy, *Refusing to Ignore People in Crisis*.\(^{48}\) The impact report will demonstrate our relevance, scope and scale of our work as well as key learnings we must take on board as an organisation so that we can grow and improve. We

\(^{44}\) British Red Cross values: compassionate, courageous, inclusive and dynamic  
\(^{46}\) [http://www.sphereproject.org/](http://www.sphereproject.org/)  
\(^{48}\) [http://www.redcross.org.uk/~media/BritishRedCross/Documents/About%20us/Strategy%20summary%202015.pdf](http://www.redcross.org.uk/~media/BritishRedCross/Documents/About%20us/Strategy%20summary%202015.pdf)
anticipate this will be made available to multiple audiences, including funders, supporters, service users and the general public.

6.6. In line with the “public benefit requirement” under Section 17 of the Charities Act (2011), we also produce and publish annual trustees’ reports and accounts documents on our website, outlining key achievements as well as full audited accounts for the year.

6.7. In addition, it is our view that the measures taken by the British Red Cross and many other charities across the sector towards improving fundraising practices (see paragraph 2.2) will lead to greater transparency and respect towards donors and the general public. We will constantly need to ensure that our fundraising activity reflects our values and that, when we fundraise, the needs of our beneficiaries continue to inspire us, that our donors have a real choice over how they decide to give and how we contact them, and that public trust and confidence in our charity is always front of mind.

6.8. A recent survey by the NCVO found that two-thirds of the public do not trust charities to use their data properly. NCVO’s working group on ‘opt-in’, which our Chief Executive is chairing, is working on good-practice guidelines that are intended as a helpful tool for charities. ‘Opt-in’ will publish its recommendations in September. We believe these will offer clear and practical recommendations for charities to build deeper relationships with their donors.

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

10.1 As detailed above, the British Red Cross is part of the International Red Cross and Red Crescent Movement, the world’s largest independent humanitarian network. This enables us to learn from 190 other Red Cross and Red Crescent national societies across the globe.

10.2 The British Red Cross regularly attends and hosts Red Cross and Red Crescent international events focusing on shared areas of concern. Issues discussed are diverse, ranging from how we collectively tackle trafficking across the European Union, to ensuring our first aid education practices stand up to international medical and academic scrutiny. We also set out to share research and other key information

50 For more information on the group and their findings please see Mike Adamson’s article, *Two-thirds of the public don’t trust charities to use their data properly* on Civil Society Fundraising: [http://www.civilsociety.co.uk/fundraising/news/content/22279/two_thirds_of_the_public_dont_trust_charities_to_use_their_data_properly](http://www.civilsociety.co.uk/fundraising/news/content/22279/two_thirds_of_the_public_dont_trust_charities_to_use_their_data_properly)
relevant to other countries, usually through topic specific Red Cross and Red Crescent task forces. We see such exchanges of information as vital in improving our service delivery as well as our coordinated response to crises, such as the on-going refugee crisis.

10.3 The Red Cross and Red Crescent Movement also holds an international conference every four to five years where all the Movement’s representatives meet with representatives of the States Party to the Geneva Conventions.

10.4 Finally, the British Red Cross works across the United Kingdom of Great Britain and Northern Ireland. This means we have close and regular contact with colleagues in both Scotland and Northern Ireland. These relationships are especially important in terms of our advocacy development and policy and practice recommendations to Westminster. For example, we have been able to compare health and social care policies across the UK to see what’s worked and what hasn’t elsewhere and adapt our policy recommendations accordingly.

7 September 2016
Arts/social fundraiser contribution to select committee enquiry on challenges faced by the charitable sector.

I am a fundraiser for arts/social causes and have found in recent years that trust & foundation fundraising has become increasingly competitive making it harder to achieve targets/charitable goals, especially for small to mid-scale organisations with small fundraising teams where this is a vital source of income with a good ROI. I was recently told by a Big Lottery Fund assessment team representative that times are hard and they get many more applications now for front line services, where before they funded programmes which developed social skills for people with learning disabilities leading to more independent lifestyles, now they are more likely to support projects which secure tenancies, help people budget, feed themselves & access health services. Support that previously would have come from local authorities.

I would like to suggest an idea which could generate significant new income streams for the charitable sector at a time of challenging economic hardships within the communities we serve.

In the USA private foundations are required to spend 5% of their asset base every year on donations and operating costs, I believe it can be achieved over a 3 year cycle so if one year it’s 4.7% and the next 5.3%, that’s ok.

We have no such rule in the UK which risks some funding entities becoming dormant, and others giving away small amounts proportionate to their capacity to give.

Some might argue that at 5% the rule would promote an ecology of foundations spending down their assets – is that such a bad thing? It may in some cases run counter to the constitutions of some of our charities where Trustees are required to preserve the endowment value in real terms.

I believe even at 3% - which should enable fund managers to deliver on constitutional obligations – the rule would have a significant impact on available funds.

[Confidential example removed].

25 August 2016
About Business in the Community

Business in the Community (BITC) is The Prince’s Responsible Business Network. We are a business-led, issue-focused charity with more than 30 years’ experience of mobilising business to work together to tackle a wide range of issues that are essential to building a fairer society and a more sustainable future. We engage thousands of businesses through our programmes driven by our core membership of over 800 organisations from small enterprises to global corporations.

Many of our core programmes broker relationships between businesses and charities, to support the delivery of charities’ outcomes. This is often achieved through the allocation of employee time to volunteer, either directly delivering the charity’s services or supporting the management and infrastructure. BITC operates across the entire UK, with a network of offices working to support the needs of local communities and charities, and a team of talented individuals seconded from business and the Civil Service who operate in communities of greatest need to build partnerships that tackle local issues.

Underpinning our approach to supporting business are five key principles that represent best practice in the way that a business support communities. These five principles are:

- Identify the social issues that are most relevant to your business and most pressing to the communities you work with.
- Work in partnership with your communities, leveraging your combined expertise for mutual benefit.
- Plan and manage your community investment using the most appropriate resources to deliver against your targets.
- Inspire and engage your employees, customers and suppliers to support your community programmes.
- Measure and evaluate the difference that your investment has in the community and on your business. Strive for continual improvement.

This submissions draws upon the knowledge and experience of BITC, built over 30 years operating within local communities and supporting business; and in particular BITC’s expertise in community investment and employee volunteering and gained through the Business Connector and Give & Gain Day programmes. We believe that our role working with both businesses and charities offers a unique perspective on the challenges and opportunities currently facing the sector.
1. The role of the charity sector and the pressures facing it

The role of charities in the community

1.1 Charities provide support to communities across the UK through the provision of services to address key social issues. They operate in a range of different ways, though under the fundamental principle that the services they provide are not offered on the basis of generating profit. Variation can be seen in terms of organisation size, issue focus (e.g. young people, health or social care, environment etc), geographic scope, and increasingly operating structure. As an organisation, BITC supports small local charities, community organisations and social enterprises, working with over 3,400 across England since 2012.

1.2 Over the last five years, our local teams have highlighted a reduction in the provision of charities providing infrastructure and brokerage services. These organisations support other charities, and in particular small local charities that make up the bulk of the sector. Funding has increasingly prioritised front-line outcomes, and carries an expectation that organisations receiving funding support have adequate management and measurement structures and systems in place.

1.3 At the same time, in our experience, there is greater competition for the funding available to the charity sector, and a need for charities to consider new methods of generating income and often new operating models. The growth of the social enterprises is demonstrative of these trends.

1.4 As such, there is an increasing need for small local charities in particular to find new sources of support and different ways to generate and sustain an income base. A key element of this includes exploring new opportunities to collaborate, and in particular work on a cross-sector basis to develop more efficient ways of working and innovative methods to achieving social outcomes. However, an evaluation of our Business Connector programme shows this is not universally acknowledged with, a spectrum of relationship mindsets existing amongst charities that extends from ‘disengaged’, through ‘donor-recipient partnerships’ to partnerships that are ‘fully engaged in working with complex systems’.

1.5 From our experience, the role of volunteers, and in particular trustees, is fundamentally important to achieving an increase in the sophistication and sustainability of charity resources. As such, they are essential in achieving a shift to ‘fully engaged’ relationships. As we have seen from programmes such as the Business Connectors, engagement with and support from external strategic advisers who can broker cross-sector partnerships greatly benefits small local community organisations to improve governance arrangements and consider new ways of working.

The role of charities in charity-business partnerships
1.6 Businesses work in partnership with charities to deliver social value to the community that, for various reasons, they are not able to deliver directly through their operations. In general, they recognise the unique expertise that charities have in addressing social issues, and seek to partner with them to support them to deliver this in a way that is mutually beneficial. According to NCVO’s Civil Society Almanac 2016, over £2 billion pounds was given to charities in 2013/14 by the private sector (excluding corporate foundations).\(^{51}\)

1.7 Through our work supporting businesses, we are seeing an increase in diversification of the types of relationships businesses have with charities. For example, from the traditional philanthropic relationship (e.g. giving, fundraising) through to more complex, integrated social/shared value delivery models (e.g. utilisation of social enterprises in supply chains, partnership with charities to support development of new services which are targeted to a vulnerable group with specific needs). Feedback from the Business Connector survey shows that local community organisations are becoming more aware of this, with charities recognising that the most beneficial relationships are those at the ‘fully engaged’ end of the spectrum.

1.8 Although it is becoming more recognised by both business and charities that these more sophisticated relationships can deliver greater value, it also requires increased levels of skills and resources within a charity to participate in such a relationship. As part of the Business Connector evaluation, charities identified that the change in mindset required to shift from a ‘donor-recipient partnership’ to a ‘fully engaged’ partnership is the hardest to achieve, with a “lack of local infrastructure or mixed-interest events, reluctance to expend organisational resources on networking, the influence of leadership behaviours, and a reductive mindset of ‘expecting’ things to happen or expecting resource, instead of being proactive in unlocking resource from untapped or previously unexplored parts of the system” being some of the key barriers to achieving this change.

1.9 As charities seek to develop relationships, they are having to consider new opportunities to engage. 63% of voluntary and community organisations or social enterprises surveyed, who had been involved with the Business Connector programme and received support from a private sector enterprise, agreed that the charity sector felt that they need to “actively go and seek (outside) know-how and learning from the business sector”.

1.10 As a relationship with a charity/community partner increases in sophistication and complexity we recommend to business that they implement a number of strategic and governance measures to protect the integrity of all parties as well ensure the agreed social value is delivered. principles are:

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Establishing a formal memorandum of understanding outlining the roles and responsibilities of each party.
Formally and collaboratively outlining the aims of the partnership and associated performance objectives and metrics to which these will be measured.
Maintaining transparency with key stakeholders about the nature of the relationship, what is seeking to achieve for all parties and performance to date against set targets.
Developing and maintain regular communication and dialogue that openly and robustly considers actual and/or perceive conflicts of interest and is respectful and accepting of the each parties’ individual core purpose and method of operation.

1.11 A key area continually highlighted across our programmes is the disconnect between a charity’s understanding of the support available and what its organisational needs are, and the opportunities for businesses to engage with the charity beyond traditional one-day physical activities. This is due to a variety of reasons, including openness to engagement between businesses and charities, concerns amongst charity staff about adopting a more enterprising and business-like approach to operating and the consequential impact on the organisation’s ethos, and a lack of understanding about the benefits to business of engaging with the charity sector. For example, many charities that work with Business Connectors highlight the need for volunteers who can offer specialist skills such as marketing, finance and business planning. However, we have observed that there is often an initial lack of willingness to request these skills when seeking business volunteers due to the reasons above, and a lack understanding on the part of business to offer them.

Volunteering

1.12 In our experience, volunteers continue to be a key bedrock for charities and are fundamental to the continued operational success of many small local community organisations. Motivations for volunteering are evolving. In a YouGov poll conducted on BITC’s behalf in April 2016, over 56% of adults aged over 24 who volunteered did so to ‘give back’ to their community. In comparison, 48% of young people aged 18-24 volunteer are looking to gain new skills and 38% feel that volunteering has boosted their career options. This compares just 16% of 25-34 year olds and 9% of 45-54 year olds. Volunteering rates also differ widely. Over half of 18-24 year olds volunteer, compared to just 31% of 25-34s.

1.13 As this data demonstrates, expectations around volunteering varies between age groups. Similarly, expectations around the role of businesses and charities in society

Business in the Community — Written evidence (CHA0155)

is changing. Sixty-two per cent of employees aged 18-24 feel that their employer could do more to connect with their local area. This is compared to 49% of employees aged 45-54 and 48% of over 55s respectively.

1.14 A key area in which BITC works and through which we offer support to charities is the brokering of volunteers from business. When we refer to business volunteers in this context, this can include people employed by public organisations such as central or local government or universities.

1.15 Opportunities can vary considerably. In 2015-16, two-thirds of the relationships that BITC brokered focused on skills-based activities such as one-to-one mentoring with beneficiaries, employability workshops or charity governance advice and guidance. The remaining third related to one-off physical team challenges (e.g. painting and decorating, gardening, sports activities).

1.16 In our experience, over the last three years there has been an increasing focus on skills-based volunteering amongst businesses. It is our understanding that the proposed legislation on three-days volunteering entitlement has served to bolster interest in this, as business seeks to understand how they can offer mutually beneficial volunteering opportunities that create a triple win - for the charity, the business and the volunteer. Our members are increasingly recognising the importance and value of this support, with many linking their employee volunteering opportunities to their learning and development competency frameworks. The aim is to raise the profile of volunteering as an additional route to developing staff skills and knowledge, whilst offering charities access to the time and knowledge of their employees.

2. Governance and resource management

2.1 As noted above, there is an increasing recognition of the need to increase the skills and capacity of the charity sector. Small local charities in particular have highlighted the need to us for skilled support from volunteers, either to address specific needs (e.g. vehicle licencing, food handling) or for more general management purposes. Business Connectors highlight key trends in the need for ‘business skills’ such as marketing, IT support, HR, legal advice or evaluation and impact measurement.

2.2 It is our observation that there needs to be greater recognition that charities are similar to businesses and public sector organisations in terms of management needs, though operating on a different profit basis and with differing accountabilities and stakeholders, and the skills required to run a charity are often aligned to the skills required to run a business or public sector organisation.

2.3 From our experience, charities and businesses are increasingly aware of the support they can offer to each other as part of a mutually beneficial partnership. For example, this could be in the form of employee skills development through volunteering opportunities or, as is starting to be recognised, the market intelligence that a business can gain through working with charities and the consequential
improvements in responding to community and customers needs that can occur as a result.

2.4 Also as noted above, there is a reduction in the provision of infrastructure organisations, which can provide charities with training, support or access via brokerage to many of the skills highlighted.

2.5 Many businesses currently offer access to skills as part of their community investment strategies (for example, law firms provide pro bono legal advice). However, many charities, and in particular small local charities are unaware of the availability of this support or unsure how to access it.

2.6 Through our work we are increasingly seeing that the creation and promotion of cross-sector networks provides an alternative model to improve access to support. Bringing individuals from the public, private and charity sectors can help to increase knowledge and understanding of the different ways in which organisations can build mutually beneficial partnerships. For example, Business Connectors encourage and promote the creation of cross-sector networks at a local level in the communities in which they operate; such as in Cumbria, where the creation of a cross-sector networking event has developed new partnerships between businesses and community organisations. Bringing together these organisations has helped local charities and businesses to find mutually beneficial opportunities to collaborate and work together in a way that is supporting the regeneration of the local community and also building resilience against future challenges.53

2.7 In working with charities and business we have identified that a critical factor for success is the initial articulation and establishment of mutual understanding of the social issues which will be addressed and the characteristics and dynamics of the communities in which the partnerships will be working. It is this context-setting which usually informs the quality of the direction and implementation of a programme of work. While a number of organisations and businesses we work with undertake this process, improvement in quality and consistency of data and process across the sector has the potential to greatly improve the outcomes of relationships.

2.8 In our experience measurement and evaluation of outcomes remains a key area in which charities need support. This is particularly true for small local charities. Many do not currently have access to the skills or systems required to provide analysis of longer-term outcomes. As funding increasingly becomes dependent on a charity’s ability to measure and evaluate these, the ability for smaller charities to access this funding is becoming more challenging.

2.9 Within the charity sector, outcome/impact measurement is often promoted as an important priority from both a delivery and a governance perspective, as it enables charities to ensure that they services they are providing are line with their charitable mission and purpose, and are being delivered in the most effective way possible.

53 https://www.bitconnect.co.uk/connectors/whitehaven-workington/posts/west-cumbria-together-cross-sector-skills-networking-event
Further developing this culture is important in securing support for a charity’s activity and purpose, and therefore underpins its long-term sustainability.

2.10 We have seen many examples where business or public sector volunteers may offer these skills and provide the support required to develop outcomes measurement processes and knowledge in charities. As above, a key route to achieving this transfer of skills is through the creation and development of cross-sector networks that can support knowledge sharing and greater understanding of the needs of different sectors, and opportunities for collaboration.

3. Social investment

3.1 Social investment is increasingly being recognised as presenting an opportunity to increase funding in the charity sector. However, the lack of agreed market size data means that it is difficult to assess the scope and potential for social investment in the UK. NCVO’s recent social investment market review provides an overview of the current evidence base.\(^4\)

3.2 BITC would concur with the findings from others such as NCVO,npc and others that a lack of awareness and knowledge about social investment is a barrier to the market fulfilling its potential. This applies to charities, business (particularly outside the investment community), Commissioners and others e.g. Housing Associations.

3.3 To support the future development of social investment, BITC would encourage making more development grants available to help organisations to develop propositions. Grants should enable the voluntary sector to fully recover costs. Alongside this, funds should such as the Life Chances Fund should continue to be made available to subsidise outcome payments for commissioners, and dedicated support should be provided for commissioners to increase knowledge and awareness of social investment.

3.4 It is our observation that to make social investment a viable and sustainable funding option for charities, the capacity and resourcing gaps highlighted in the rest of our submission (e.g. governance, strategy, working with complex partnerships, impact measurement) are critical. Without an increase in support to build the necessary skills and knowledge, there is a risk that social investment will create a large gap within the charity sector based on capacity and not necessarily on the priority of the social issue being addressed.

12 September 2016

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Caistor Arts and Heritage Centre — Written evidence (CHA0033)

Problematic process of registering a charity

Caistor Arts and Heritage Centre (CAHC) which opened on 11 April 2011 was one of six Village SOS projects funded by the BIG lottery and documented by the BBC. The 1 hour programme fronted by Sarah Beeny was broadcast on 24 August 2011.

CAHC has been operating successfully for 5 years and of the original six finalists only CAHC and one other remain. Throughout this 5 year period the income to CAHC has come from the cafe and shop, funding from Lincolnshire CC to run a library service, grants, training and donations. The organisation is now facing a funding crisis because of Government cuts to local authorities, which has resulted in the withdrawal of library funding by LCC. In facing up to this the board of CAHC agreed to pursue the charitable registration of the non-trading portion of the business. The reasons for this being: 1 many awarding bodies, particularly those supporting arts and heritage, will only make awards to charitable organisations, 2 the centre receives donations of several thousand pounds per annum on which it is currently unable to obtain gift aid.

The purpose of this submission is to highlight a practical difficulty, (Catch 22 situation) when registering a charity. Unless the organisation is incorporated as a Charitable Incorporated Organisation (CIO) it is a requirement to have a bank account in credit to at least £5000 and a set of accounts. CAHC incorporated a second company limited by guarantee in 2014 for the specific purpose of separating the charitable activities from the trading operation. This company has remained dormant until now. It was not set up as a CIO on legal advice. Notwithstanding the fact that CAHC has been operating for 5 years and it is a simple matter from the accounts to identify the charitable activities and separate them from the trading activities the Charity Commission will not accept that - even if verified by independent accountants. CAHC is hence in the position where we need to obtain income of £5000 from grants, (for which we cannot apply until a charity) or donations (on which we will lose gift aid if we bank them before becoming a charity).

It is not clear why a CIO does not have to provide proof of income whereas a company limited by guarantee does. Even if there is a good reason for this then the Charity Commission should be more flexible about the use of historic accounts to show charitable activities, providing they are independently certified.

31 August 2016
Lucy Caldicott — Written evidence (CHA0170)

Lucy Caldicott — Written evidence (CHA0170)

My name is Lucy Caldicott, I am Vice Chair of Fair For You, and trustee of Hope and Homes for Children and a board member of the Fundraising Regulator and member of its adjudication committee. I am currently a consultant focusing on supporting charities with strategic leadership, funding and marketing. I have had chief executive and director level roles in a range of charities over the past two decades and am past trustee of two other charities (St Giles Trust and Vauxhall City Farm). I began my career in international marketing roles at American Express and MoneyGram International.

I submit this evidence to the committee in a personal capacity.

Questions

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

The role and purpose of charities can include the following: provision of services for vulnerable people, developing and influencing policy, testing new solutions, communicating the experience of their beneficiaries to a wider audience.

- How has this changed?

As funding to the statutory sector has decreased and the public sector has moved to outsource some of its service provision, many charities now provide services that were previously provided by central or local government. Where private sector providers have been commissioned to run services, many charities are working in partnership with them to deliver some of the outputs of government contracts e.g. in the criminal justice sector. Many of these contracts are based on payment by results which brings significant risk and uncertainty to charities, particularly where “results” could be open to interpretation. Charities have had to become extremely savvy at negotiating terms.

- What makes them distinct from other organisations doing similar work?

Service and care is their key deliverable rather than any kind of profit motive.

- What role can charities play in community cohesion and civic action?

Charities can play a role in bringing people from different parts of the community together to work in a common endeavour. For example, food banks engage volunteers to work regularly as volunteer teams to run the food banks with limited paid staff support.

- How does the sector benefit from volunteering?
Volunteering is intrinsic throughout the sector. From the voluntary board of trustees to the volunteers running charity shops, there are volunteers working at every level of charities. The volunteer ethos is very well-established. Many charities provide highly structured volunteering and internship programmes, managed by staff that are experienced and skilled in engaging volunteers effectively and ensuring that they are managed well.

- How has the status of volunteers changed?

As more charities are seeking to do more with less, volunteer support has become more important. Professionalisation of the volunteer role has also become more important as charities seek to ensure volunteers get a good deal from their experience.

- What challenges do charities face in trying to fulfil their role in civic society?

Pressure on funds. It’s harder to raise money and often charities find it impossible to compete with much bigger providers who can absorb costs more easily. Funding can be variable from one year to the next but most of charities’ costs are static, particularly those that provide service where most of the cost is salaries.

Media and public opinion has become more hostile and charity staff can be ill-equipped to know how best to respond effectively to, for example, scrutiny of chief executives’ salary levels, fundraising techniques etc.

Charities can often be competing with each other for funds and awareness. For example, children’s cancer is very rare (c 4000 diagnoses annually amongst 0-25 year olds) and yet there are nearly 70 children’s cancer charities.

- How can these challenges be overcome?

Charities can be encouraged to work more effectively in partnerships, coalitions, mergers etc.

Charity umbrella bodies can also be encouraged to work more effectively with each other to support charities. For example, the organisation Charity Comms led a series of projects over the past 12 months seeking to equip charities to respond more effectively to media criticism.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?

Many charities have closed due to unsustainability. As funding streams have changed or decreased, many charities have not been able to adapt quickly enough.

- What opportunities do charities have in the current environment?
Adapting their business model - combining social enterprise and charitable. eg. Vauxhall City Farm which had been very dependent on an unrestricted annual grant from Lambeth Council. Over time the organisation has been able to take advantage of a Section 106 grant from developers in Vauxhall to redevelop its buildings to include a cafe. This now provides an employment opportunity and income stream. This transition has taken nearly a decade, however, and not all organisations are able to remain sustainable during such an enormous change.

Entering into partnership e.g. St Giles Trust’s funding for one of its core programme areas disappeared during the change of government direction in 2010. It has then been able to work in partnership with one of the providers of the Transforming Rehabilitation contracts. However, again, this has required enormous change for the organisation which is now operating in very different geographies from before.

- Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

All charities have a specific set of challenges depending on their specific context. The one challenge that they all share, perhaps, is a constraint around adaptability if that context changes.

For example, charities with a big dependence on a particular income stream will have built up expertise in managing that type of income. For example, a charity with a large proportion of income from a government source will have built up expertise in managing the demands of that type of grant (reporting requirements, type of work that is fundable etc). If that source is set to change, there will often be uncertainty for many months before the change is announced. This uncertainty in itself creates work for the charity even while the funding is still in place (staff turnover, instigation of redundancy consultations to comply with employment law, scenario planning). If the funding stream vanishes or reduces, moving to alternative sources of income is difficult as there are long lead times (1.5 - 2 years) to see returns.

Innovation
3. How do charities seek to innovate, particularly in the digital arena?
- What more could be done to promote innovation, and by whom?
  - What barriers are there to being innovative? Governance and leadership

Innovation can be seen as an add-on, optional activity and therefore hard to prioritise when people are already stretched. This means that innovation can end up happening in a crisis (see above the Vauxhall City Farm example where its office building was condemned and core funding was drying up). Charities should be given financial support and encouragement to innovate as part of a rolling ongoing process. Also support in innovation skills should be made available.

4. What skills are required to lead and manage a charity?

Running a charity requires the same skills as running any organisation: people management and leadership skills, strategic and organisation planning, financial and risk management, communications and marketing. There are some technical skills which are specific to the charity’s mission (e.g. child protection, social care, humanitarian relief). Fundraising draws on many skills that you’d develop in a corporate marketing or sales team.

- How can these skills be gained?

These skills can be gained in commercial or public sector roles or in training schemes within charities.

- What support exists to develop these skills within the charitable sector?

Larger charities have more resource to develop training schemes or partner with organisations like Charity Works to employ graduates.

5. What role should trustees play in the performance and effectiveness of a charity?

Trustees should play an oversight role. Ensuring that the charity executive has tools in place to measure performance and effectiveness and reviewing key performance indicators on a regular basis. These indicators should cross all aspects of the organisation, effectiveness of delivering the charity’s mission for its beneficiaries, financial risk, compliance, people management as all of these need to be functioning well for an organisation to be successful.

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

Good quality induction into the organisation - training, if required - effective chairmanship of meetings - provision of enough information to ensure they can do their job well, effective engagement in strategy development and planning - regular appraisal of their role - increased diversity of trustees

- What, if any, changes might this mean for current arrangements?

Charities should be encouraged to recruit trustees from a more diverse background

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

Engaging their input in planning and communicating effectively.

- What, if any, changes might this mean for current arrangements?

Some charities are doing this already. For example, CLIC Sargent has developed a Children and Young People’s Advisory Group who advise on strategy and direction. They regularly consult with children and young people with cancer to get input into policy.
How should charities assess their long term viability and/or sustainability?

They should have long term (3 or 5 year) plans in place with annual planning processes to develop more concrete plans. Too many charities only plan on an annual basis. Longer term plans give the opportunity to assess risks in the future and manage them more effectively.

30 September 2016
1. Introduction

1.1 The Calouste Gulbenkian Foundation is a charitable foundation established in Portugal in 1956. The Foundation's Headquarters are in Lisbon with offices in London (the UK Branch) and Paris. The purpose of the UK Branch is to bring about long-term improvements in well-being, particularly for the most vulnerable, by creating connections across boundaries (national borders, communities, disciplines and sectors) which deliver social, cultural and environmental value.

1.2 Our interests span social, cultural and environmental issues. Our current priorities include: ensuring better communication of the value of the ocean to secure its protection; trialling approaches to help people approaching retirement build resilience and social connections to avoid loneliness in later life; and giving people who are vulnerable or under-served opportunities to participate in the performing arts. We have a general interest in the health of the sector, its ability to be innovative, and the effectiveness of philanthropy. We work with organisations across the rich diversity of the charitable and voluntary sector affording us a distinctive overview of and insight into challenges facing the sector.

Our observation is that the future success of the charitable and voluntary sector, and public support for it, depends on effective leadership with strong values, committed to collaboration for social impact and with funding that supports this.

2. Funding fit for purpose

2.1 One of our major concerns as a foundation seeking to act as catalyst for social and wider system change, using a range of tools including a relatively small grant-making budget, is the lack of a strong “ecology” of funding that is fit for purpose. Our bias is towards developing and testing new innovative projects. This investment is wasted unless there are other funders who will support the scaling up or diffusion of approaches proven to be effective.

2.2 Examples include:

- Supporting the research and development of participatory performing arts projects. By supporting the early stage development of such projects, giving organisations time to develop meaningful partnerships with social sector organisations, engage in community consultation and recruit vulnerable and under-served participants, cumulatively results in such projects having significantly greater impact. However, arts organisations report to us that they rarely have the ‘luxury’ of a research and development phase.

- Supporting a number of innovative pilot projects for example in the areas of ageing and social cohesion. Despite evaluations signalling the strength of their models, it is often a struggle to raise the resources necessary to continue and develop and to realise the maximum potential impact of the work. We consider that the answer lies in greater funder collaboration to ensure that funding is available for all the stages of development of the most promising projects.
2.3 On this basis, we have undertaken significant work on the ‘ecology of funding’ (see *A New Funding Ecology for Social Change*, published by Collaborate with the support of the Foundation and the Big Lottery Fund and companion reports including on social investment). This recognises that different funders have different strengths and interests that they can, and should, bring to the table in collaborating for greater impact. We have worked with other funders including the Big Lottery Fund and Esmée Fairbairn Foundation to develop collaborations aimed at securing a stronger funding ecology which better supports the sustainability of charities and other voluntary organisations across their life course and across the different stages of development of innovative projects.

We recommend that funders identify their unique interests and skills and collaborate to ensure the full spectrum of activity from research and development to scaling or diffusion is supported. This will ensure the most promising social, cultural and environmental innovations achieve their potential impact.

3. Collaboration for social impact

3.1 Much of our work is focused on breaking down barriers between sectors and disciplines. Our work shows that collaborative working and the development of strong networks is vital for a sustainable charitable and voluntary sector. Our observation is that all charities, whether with remits that are social, cultural or environmental, may benefit from an approach which emphasises their social impact.

3.2 Examples of work on which we draw include:

- Co-founding of *Collaborate* which focuses on the thinking, culture and practice of cross sector collaborative working and *Making Every Adult Matter*, a partnership of four charities which we helped to found and continue to support. It demonstrates how a new approach which ’joins up’ local services and promotes partnership working - in this instance for people with multiple and complex needs - can achieve both better outcomes and reductions in public sector spending.

- Establishing a *Marine ‘CoLab’* which brings together NGOs working on marine conservation and the health and prosperity of coastal communities. The Lab has provided these organisations with the opportunity to experiment with new approaches, capitalising on their individual strengths and new ideas have been tested and developed into impactful projects for example, the *OneLess* campaign which aims to rid London of single use plastic water bottles.

- Supporting work encouraging botanic gardens to explore their social role. The evaluation of this initiative revealed how enriching the experience was for staff and how it helped the gardens develop and diversify their visitor base.

3.3 A significant current piece of work for us is our *Inquiry into the Civic Role of Arts Organisations* (see [http://civicroleartsinquiry.gulbenkian.org.uk](http://civicroleartsinquiry.gulbenkian.org.uk) - phase one reporting in December 2016). Our starting point is that arts organisations have the potential to play a
much larger civic role, engaging and supporting communities to nurture a positive and cohesive civic identity; as well as enabling individuals and communities to engage effectively in local and national political discourse – addressing a democratic deficit. The consultation we have undertaken to date suggests arts organisations’ ‘civic role’ may be summarised as being: “colleges” (places of learning); “town halls” (places where democratic discourse and engagement is championed); and “parks” (spaces in which different communities can come together). Investment in leadership is likely to be required in order that arts organisations can fulfil these roles.

We recommend that arts organisations think more carefully about the ‘civic role’ they play and work more collaboratively with organisations in the wider social sector. Large national arts organisations in particular should recognise their wider responsibilities to the social and cultural ‘ecology’.

We suggest that funders such as Arts Council England and the Heritage Lottery Fund explicitly recognise the benefits for arts and heritage organisations and their communities of developing a strong ‘civic role’ and explore incorporating this into their funding strategies. We further suggest the Arts Council and Big Lottery Fund explore how they may collaborate to help arts organisation better play their ‘civic role’.

We recommend that all funders work together to identify the potential for collaboration amongst charities and voluntary organisations to achieve greater impact within their funding areas and encourage and support it and that they recognise the value of networks and other infrastructure which provide organisations with inspiration and which enable them to develop their practice.

4. Investment in Leadership

4.1 Leadership development in the charitable and voluntary sector is often regarded as an indulgence with limited demand, low levels of investment and lack of clarity as to what is available and its quality. Yet charities and voluntary organisations currently face considerable challenges and it is an imperative that they develop the values-driven leadership that is required in the new operating environment with leaders able and willing to drive positive social change through innovation, re-engineering systems across sectors and generously collaborating to realise maximum social impact.

4.2 Our current work includes working with the Funders’ Collaboration on Leadership. This collaboration has recently been established with our support and that of the Cabinet Office, the Big Lottery Fund and the Clore Social Leadership Programme. The Collaboration is working with more than fifty organisations to develop and test experiments in the following domains: restoring trust; sharing foresight information and preparing the sector for the future; the standard of governance by informing and skilling trustees; developing a new leadership style for our sector. We are particularly interested in ways in which leaders can take collective responsibility for the trust that the public places in their organisations through developing a charter mark and peer review. This move towards greater self-
regulation may be an effective response to the reduction in capacity of the Charity Commission to regulate the sector comprehensively.

We recommend that the pilot projects developed through the Funders’ Collaboration on Leadership are tested and provided with continued and increased support if their effectiveness is proven.

16 September 2016
Camelot UK Lotteries Ltd — Written evidence (CHA0115)

Executive Summary

- The National Lottery has had a hugely positive impact on the UK since its introduction in 1994 – providing an essential funding stream to charity organisations. The National Lottery has transformed communities and enriched lives across the UK. In total, over £35 billion has been raised for National Lottery Good Causes and over 490,000 grants made to projects large and small, the length and breadth of the UK.

- National Lottery funding is a vital source of income for the future of the charity sector and needs to be secured – and we are at a pivotal point in the lottery policy landscape. The National Lottery supports charitable organisations across the UK, funding projects ranging from small, local organisations (e.g. charities such as Wintercomfort55 or the Halton Carers’ Centre56), to national charities and multi-agency partnerships (e.g. Save the Children or The Samaritans). The Big Lottery Fund is the largest funder of communities in the UK, distributing £650m each year to projects, and the majority of those grants are made to local organisations and are for less than £10,000. It is essential that The National Lottery remains vibrant and healthy through the protection of the ‘one national lottery’ model, which has repeatedly been deemed the most efficient way to maximise returns to Good Causes and society. The Government is currently considering possible changes to the lotteries market. While we are supportive of reducing regulatory burdens and encouraging cost-cutting measures for traditional smaller society lotteries – which play an important role in raising funds for charities – we caveat this with one very important point: any deregulatory measures that have the potential to undermine the settled principle of ‘one national lottery’ alongside many small-scale society lotteries must be avoided.

- The policy and regulatory environment must enable The National Lottery to flourish. In order to protect and maximise returns to Good Causes:

  - We absolutely oppose any changes to the prize and proceed limits for society lotteries. These are the very measures that separate The National Lottery from smaller, traditional society lotteries.

  - A cap on expenses for national competitors57 to The National Lottery should be reintroduced. This expense cap should be set at 15% of revenue – as was the case prior to the Gambling Act 2005 (this expense cap was alongside the minimum contribution of 20% to good causes). For the avoidance of doubt, we are not proposing that this measure is extended to all society lotteries – only national competitors.

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55 The Wintercomfort Pathways Project helps homeless people in Cambridge
56 Halton Carers Centre supports carers of all ages, including young carers under the age of 18, in the Halton area
57 ‘Umbrella’ society lotteries which operate on a national scale under a single brand, such as the Health Lottery and the People’s Postcode Lottery
Any bets on the outcome of a EuroMillions draw should be prohibited in line with the original intention of the legislation. The Gambling Act 2005 (s.95) prohibits bets on any lottery which forms part of The National Lottery, in order to protect returns to Good Causes.

- The direct link between The National Lottery and funding for charity organisations must be highlighted at every opportunity. It is essential that players know where their money is spent and understand the huge role they play in funding local charity organisations. This ensures the ‘life-changing’ link between playing The National Lottery and Good Cause funding reaches players which in turn has a positive impact on participation in The National Lottery and therefore increases returns to Good Causes.

1 Introduction

1.1 Camelot is the licensed operator of The National Lottery and is pleased to respond to this Call for Evidence by the House of Lords Select Committee on Charities. This submission relates to question 7 of the call for evidence (finances and resources).

1.1 A healthy and vibrant National Lottery is absolutely vital to ensure the continuation of much-needed funding for local and national Good Cause projects, many of which are registered charities. This requires both the buy-in of policy makers who provide a regulatory framework in which The National Lottery can continue to grow and thrive, and National Lottery players, who must understand their role in raising funds for Good Causes. To achieve this, it is essential that beneficiaries communicate the source of funding so that players can see the presence of National Lottery funding at projects in their local communities.

1.3 We are currently at a pivotal point for lottery policy as the Government is considering possible changes to the lotteries market. Any consequences – intended or otherwise – that damage The National Lottery’s ability to maximise returns to Good Causes would inevitably impact on the funding available for projects and charities across the UK.

1.4 However, it must be stressed that we recognise the important role of traditional society lotteries in providing much-needed funding for charity organisations and are supportive of reducing regulatory burdens and encouraging cost-cutting measures for traditional smaller society lotteries – they should have the necessary legislative and regulatory framework to support them in raising maximum funds for good causes. Our concerns lie in the proposed changes to the caps on proceeds and prizes – these would enable large-scale society lotteries which operate on a national scale to move into ‘life-changing’ prize territory, intended to be the sole preserve of The National Lottery.

2 ‘One National Lottery’

2.1 In order to generate the highest returns for Good Causes, it is vital that The National Lottery is both protected and able to grow. This can be achieved by providing the optimum regulatory environment for The National Lottery and enabling it to
continue to meet the changing needs of consumers by offering innovative, appealing and responsible products.

2.2 Since its introduction in 1994, and based on the Government’s own extensive research into the most efficient lottery model, The National Lottery has effectively operated as a monopoly in order to maximise returns to Good Causes. A single national lottery at scale provides the basis for a stable and consistent regulatory regime where the interest of players, Good Causes, society and the operator (via a small and tightly regulated operating margin) are aligned and protected.

2.3 The economic case for whether Good Causes are best served by having a single national lottery provider has been revisited a number of times since The National Lottery was introduced. The conclusion has consistently been that there should be a single national lottery at scale, which maximises player interest and participation (and therefore Good Cause funding).

2.4 In order to make a clear distinction between The National Lottery and smaller traditional society lotteries, prize and proceed limits exist for society lotteries – with the top prize currently capped at £400,000. This clear demarcation reflected a policy decision about people’s motivation to play: people play society lotteries primarily as a means to give to charity; and play The National Lottery primarily to be in with a chance to win life-changing prizes - which should be the preserve of The National Lottery. This balance ensures that charities benefit on both fronts – from maximised returns from The National Lottery and also from society lotteries which enjoy loyal support for local charities.

2.5 The advent of national or ‘umbrella’ society lotteries such as The Health Lottery and People’s Postcode Lottery has blurred this distinction between The National Lottery and other society lotteries. These large-scale society lotteries, marketed and sold on a national scale, encroach into the territory originally intended to be the sole preserve of The National Lottery through its monopoly model. We are concerned about the impact that this can have on The National Lottery’s ability to maximise returns to Good Causes.

3 Risks to National Lottery funding for charities

58 Parliament intended that there would be only one national lottery alongside smaller scale society lotteries as this was determined to be the most effective way to maximise returns to good causes. A single lottery with a jackpot of £10 million will sell more tickets, and therefore raise more money for good causes, than the sales and returns to good causes from two lotteries each with a jackpot of £5 million. This approach has been revisited a number of times since The National Lottery was introduced and the conclusions remain the same.

59 Previous Governments have recognised that The National Lottery and society lotteries fulfil different roles with people playing society lotteries primarily because they wish to contribute to the good causes concerned. For example, when Government last considered changing the top prize for society lotteries (2008) it noted “there is a risk that significantly increasing the prize limit could change the character of a society lottery by appealing to players for whom winning such a prize would be a greater attraction than supporting the charitable cause in question”. More recently, the Gambling Commission’s advice to DCMS on regulatory policy for the lottery sector (September 2014) referenced the characteristics that separate lotteries in the UK – and the level of top prize was a key differentiator and means of protection for The National Lottery.
3.1 It has been proposed by some society lotteries that the limits on prizes and proceeds for society lotteries should be increased. These limits are the very measures which separate The National Lottery from society lotteries and preserve the balance between the two. The current top prize for society lotteries is £400,000 and it is illustrative to note that with the exception of the People’s Postcode Lottery, no other society lottery comes close to the current £400,000 prize limit for a single draw (out of 117 society lotteries researched by Camelot, 80% have a top prize of less than £10,000).

3.2 Camelot recently commissioned research with over 1,000 consumers to identify the impact of increasing the jackpot for society lotteries on player participation. As the below chart clearly highlights, increasing the jackpot materially increases the likelihood that consumers will play umbrella society lotteries. For example, likelihood of playing the People’s Postcode Lottery at jackpots of £500,000 and £1 million increases by 15% and 67% respectively (vs. the current £400,000 jackpot). The results for the Health Lottery are even more stark with likelihood of playing increasing by 60% for a £500,000 jackpot and 145% for a £1 million jackpot (vs. its current top prize of £100,000).

3.3 The same research also identified the source of funding for the increased play. As the chart below illustrates, the research found that around two thirds of consumers expect any additional play to come at the expense of The National Lottery.

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60 Verve National Lottery Player Hub, Society lotteries online survey, June/July 2016, 1,065 respondents
3.4 Not only would increasing the jackpot for umbrella society lotteries increase consumers’ likelihood to play at the expense of The National Lottery in some form, it also appears to change the motivation behind their decision to play. As a result, motivation to play moves away from the traditional (and settled) policy position around donating to a good cause, towards more interest in winning big prizes – moving away from the original purpose of society lotteries which should be “promoted for the benefit of a non-commercial society” and conducted for “charitable purposes”61.

3.5 But why is this of concern? A comparison of the returns to society and operating costs of The National Lottery’s Lotto game, the Health Lottery and the People’s Postcode Lottery reveals that every £1 spent on The National Lottery delivers much more for society (Good Causes and Lottery Duty) than £1 spent on ‘national competitor’ society lotteries. In the case of the Health Lottery, it only returns the statutory minimum of 20% to Good Causes whilst the People’s Postcode Lottery returns 30%. The National Lottery’s Lotto game returns 41.8% to society – delivering twice as much per £1 spent to society than the Health Lottery and nearly 40% more than the People’s Postcode Lottery.

3.6 Furthermore, the regulatory regime for the Health Lottery and People’s Postcode Lottery allows them to spend a significant – and disproportionate – amount of revenue on advertising. It cannot be correct that in 2015 the Health Lottery and People’s Postcode Lottery with combined annual sales of c. £220 million spent only c. 12% less on advertising than The National Lottery (with sales of £7.595 billion).

3.7 Over the past six or so years, The National Lottery’s share of advertising has been significantly squeezed with both the Health Lottery and People’s Postcode Lottery increasing their spend. In the last year these national competitors have been joined by Lottoland (a company that takes bets on the outcomes of lotteries – please see section 4), which has represented around 10% of ‘lottery’ advertising spend in some months. In the first six months of 2016, the main lottery competitors (the Health

Lottery, People’s Postcode Lottery and Lottoland) have collectively spent more on advertising than The National Lottery. The disproportionate amount spent on advertising by these competitors (respective to their market share) clearly distorts the lottery market and crowds out The National Lottery. This dilutes the impact of The National Lottery’s communications and has a consequential impact on Good Cause revenues. Further, it has resulted in The National Lottery needing to spend more on advertising and marketing in order to protect its market position. This situation is likely to be exacerbated if the top prize for society lotteries is increased as competitors could further encroach into National Lottery territory by promoting larger jackpots.

3.9 For these reason we would urge policy-makers to:

- make no change to the top prize for society lotteries;
- reintroduce a cap on expenses at 15% of revenue for national competitors to The National Lottery.

4 Maintaining the ‘clear blue water’ between lotteries and gambling

4.1 We believe that the protection and promotion of a healthy lottery ecosystem must also include maintaining the clear distinction – or ‘clear blue water’ – between lotteries and gambling. Lotteries and gambling have always operated in separate

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62 Nielsen advertising spend data, 2016
63 Prior to the Gambling Act 2005, maximum expenses were capped at 15% for large lotteries and 35% for smaller lotteries; up to 55% of revenue could be spent on prizes; prizes could not exceed £25,000 or 10% of ticket sales; at least 20% of proceeds had to go to good causes [Sources: Lotteries and Amusement Act 1976; Home Office Commissioned Gambling Review Body Report (The Budd Report) July 2001].
markets — certainly most lottery players do not see themselves as gamblers — and have been subject to different legislative, regulatory and financial obligations. However, we are becoming increasingly concerned about a blurring of the lines.

4.2 A key issue is the prevalence of companies offering bets on lotteries. Our principle concern in this area is that under UK legislation\(^64\) it is prohibited to take bets on the outcome of The National Lottery, including the outcome of the UK EuroMillions game (this is to ensure returns to Good Causes are not damaged). However it is an anomaly that it is possible to place a bet on the EuroMillions draw where the game is promoted in another EuroMillions country (e.g. Austria). This is despite the fact that it is, in effect, the same game as UK EuroMillions and that EuroMillions in another country actually forms part of the UK EuroMillions game (and vice versa).

4.3 We believe that any bets on the outcome of a EuroMillions draw — such as those offered by Lottoland\(^65\) — should be prohibited in line with the original intention of the legislation which prohibits bets on any lottery which forms part of The National Lottery.

4.4 Beyond the specific issue of betting on EuroMillions, we are also concerned that, while products which offer bets on lotteries have existed in bricks and mortar betting shops for some years — and have always been of concern to Camelot – the gaming and gambling market has seen the emergence of online companies offering bets on the outcome of lotteries/lottery-style draws more generally, directly competing with traditional lotteries.

4.5 There are some operators offering bets on lotteries which do not meet, in our view, basic levels of transparency as to whether the product they are offering is a bet or a lottery. As a result, they mislead consumers and trade on the good name of lotteries for — in the main — commercial gain. Again, it should be stressed that lotteries “cannot be run for private or commercial gain” yet in the majority of cases, bets on lotteries do not have a charitable or good cause element.

4.6 We believe that all bets on lotteries should be clearly and prominently labelled as such to enable consumers to easily distinguish placing bets from playing a lottery, therefore ensuring player protection and compliance with the Gambling Commission’s guidance on the matter.\(^66\)

5. The importance of recognising National Lottery funding

5.1 It is vital to the long term brand health of The National Lottery that players know how their money is spent. Progress has been made over the years to inform players of projects large and small, the length and breadth of the UK, which have benefited from National Lottery funding. Initiatives such as the development of a common National Lottery brand and the annual National Lottery Awards are examples where

\(^64\) [http://www.legislation.gov.uk/ukpga/2005/19/section/95](http://www.legislation.gov.uk/ukpga/2005/19/section/95)

\(^65\) [https://www.lottoland.co.uk/euromillions](https://www.lottoland.co.uk/euromillions)

\(^66\) [http://www.gamblingcommission.gov.uk/Gambling-sectors/Betting](http://www.gamblingcommission.gov.uk/Gambling-sectors/Betting)
The National Lottery family worked collectively to the benefit of The National Lottery and showcased the amazing work of funding beneficiaries. More recently, Camelot has introduced an ‘editorial board’ which has representation from the National Lottery Promotions Unit. The editorial board looks to utilise our extensive communications channels to amplify the Good Causes message to as wide an audience as possible. Its aim is to be part of the national conversation and tell stories about people, not just projects, so that there is a real connection between players and the Good Causes they fund.

5.2 But beyond these National Lottery initiatives, there is also a clear need for those projects which have benefited from National Lottery funding to publicly recognise its contribution and display the iconic ‘crossed fingers’ logo – recognised by 95% of the population – at every possible opportunity. The projects are the face of Good Cause funding and represent the tangible benefits that National Lottery funding can bring. Increasing awareness of its reach and impact reinforces the ‘Life Changing’ purpose and the positive outcome of every National Lottery ticket sold or game played.

5.3 There has been considerable investment by Camelot in telling the life changing story, making the connection between playing, winning and giving to good causes. The ‘Play Makes It Possible’ tagline has been a central element to National Lottery marketing for over a year, on the basis that knowing about National Lottery Projects promotes positivity and has a direct impact on players’ participation in National Lottery Games and therefore increases returns to Good Causes.

5.4 The National Lottery family is working closely with the charities and projects that benefit from funding to encourage them to display National Lottery branding at facilities and on their websites and social media channels. While there has been great progress in this area, the way in which people consume media is changing and the need for a common voice is greater than ever. In order that players understand how buying a National Lottery ticket contributes to both local and national Good Cause projects the story must be told clearly and in a way that resonates with the public. It is essential that the whole National Lottery family, including the distributors and beneficiaries of funding, are collectively working to make that link clear, and we must all have higher expectations as to the way in which National Lottery funding is acknowledged.

6. The wider impact of National Lottery funding

6.1 The wider impact of National Lottery funding is more difficult to quantify but equally important. It can kick start the regeneration of an entire area and can also unlock other forms of funding – it can be seen as a badge of quality making it easier to attract other funders or investors. This in turn leads to greater levels of philanthropy and financial giving, with donors keen to be part of the success and to maintain it – it becomes a positive cycle with more funding leads to better facilities and so on.

6.2 One example is Golden Lane Housing (a subsidiary of Mencap), which in 2012 used social investment from the Big Lottery Fund to develop a charitable bond that could
fund specialist housing for people with learning difficulties. They initially purchased 27 properties and housed 99 people, with the strength of that model enabling them to go on and raise further funding through the London Stock Exchange and grow the portfolio to 400 owned properties, 275 leased properties, and serve 1320 people with learning disabilities. Through projects such as these, National Lottery funding has changed and enriched lives across the nations and regions, and supported thousands of local organisations doing great work in their community.

6.3 It is essential that the policy and regulatory environment enables The National Lottery to flourish, so that the vital funding it provides can continue to support charities across the UK for the future.

5 September 2016
1. Cancer Research UK is the largest fundraising organisation in the UK. We receive no Government funding for our research and our ground-breaking work is therefore only possible because of the generosity of the public. Last year we spent £432 million on research in institutes, hospitals and universities across the UK, funding over 4,000 researchers, clinicians and nurses. This figure includes our £28 million contribution to the building of the Francis Crick Institute. Our ambition is to accelerate progress to see three in four patients survive cancer by 2034.

2. In order to achieve our charitable objectives, we need government policy to promote a favorable environment for charitable giving in the UK and to also support the UK’s world-class science base. Over recent years the sector has experienced pressures that are challenging our ability to effectively spend funds – donated by our supporters - in a way that maximises their impact in our fight to beat cancer. We welcome the committee’s inquiry which aims to review these pressures and identify solutions that will help us to meet our objectives by optimising charity governance and fundraising operations. In addition to outlining some of these pressures and opportunities, our response addresses the importance of ensuring best practice and building public trust for the future sustainability of the sector.

3. Our key recommendations are:
   - The Charity Commission is well placed to ensure that a consistent standard and level of training and support is provided to trustees across the sector so they are equipped to fulfil their responsibilities.
   - To enable this, Government needs to provide more funding to the Charity Commission so that it has the necessary resource to effectively support trustees.
   - This committee should look into the sustainability of the trustee role; including any new measures that may be needed for charities of all sizes to continue to recruit Trustees and effectively support them in undertaking their important statutory duties.
   - The new Fundraising Regulator should work to promote best practice and build public confidence in fundraising organisations. It should develop a Fundraising Preference Service that meets public expectation and effectively communicate this service to the public.
   - The Financial Secretary to the Treasury should look at a range of measures that would help ensure the future financial sustainability of the sector, including:
     - Maintaining Government’s commitment to protect business rates relief for charities.
     - Safeguarding charities’ contributions to the Apprenticeship levy so these can be spent developing skills truly needed in the sector.
     - Reviewing VAT rules on sharing of facilities in light of Brexit, so that these better enable innovative collaborations between research charities and industry in the UK.
   - The Minister for Universities and Science should commit to grow the Charity Research Support Fund, which provides targeted support for the investment medical research charities make in English universities.
Ensuring best practice and building public trust

4. As the largest fundraising charity in the UK we rely solely on the generosity of the public. Although Cancer Research UK is still the most trusted charity in the UK, it is still a significant concern to us that overall public trust in the sector is in decline. Only through ensuring effective charity governance, achieving best practice for fundraising, and communicating the changes effectively, can we secure public confidence.

Charity governance and leadership

5. Cancer Research UK is committed to good governance and aims to operate to the highest standards of best practice. We welcome the Charity Commission’s recent changes and clarification of the role and responsibilities of trustees. We believe these changes will ensure greater oversight of charity operations across the sector to ensure best practice. However, the increased accountability of trustees has raised questions for charities and regulators alike, including whether greater support and training of trustees is needed.

6. The Charity Commission is well placed to ensure that a consistent standard and level of training and support is provided to trustees across the sector so they are equipped to fulfil their responsibilities. To enable this, Government needs to provide more funding to the Charity Commission so that it has the necessary resource to effectively support trustees.

7. The increased expectation and accountability of trustees raises concern, particularly among the larger charities, that these voluntary roles will become increasingly difficult to recruit for. It would be valuable for this committee to look into the sustainability of the trustee role; including any new measures that may be needed for charities of all sizes to continue to recruit Trustees and effectively support them in undertaking their important statutory duties.

Fundraising regulation

8. We are supportive of the new Fundraising Regulation and believe that recent changes in the system of self-regulation of fundraising organisations will help deliver the improvements needed to rebuild public confidence. The goal should be to ensure a proportionate regulatory framework and culture for fundraisers which:
   - Addresses public, political and media concerns around fundraising practices.
   - Creates a long term framework for maintaining public trust in the sector.
   - Allows charities to continue to raise funds effectively.

9. Cancer Research UK is committed to best practice and creating a positive experience for all of our supporters. We have moved to an opt-in system for all our fundraising communications to new supporters to put their wishes at the heart of what we do; we will move to an opt-in model for existing supporters from April 2017.

10. We support the development of a Fundraising Preference Service (FPS) that enables the preferences of the public, in respect of the fundraising communications they receive, to be upheld. In particular, we hope that this service will protect the most vulnerable in society.

To enable the FPS to further build and maintain public confidence, the Fundraising Regulator should ensure this service meets public expectation and its remit and function is effectively communicated to the sector and public.

Pressures and opportunities

11. Over recent years there has been an upward pressure on our costs in a number of areas. For example:
- Environmental costs associated with recycling, landfill tax and the carbon reduction energy efficiency scheme
- Introduction of the national living wage
- Pension regulations & national insurance increases.
- Introduction of the Apprenticeship levy (May 2017)

12. These are important policies that we support and as a large employer it is our responsibility to implement in full. However, unlike businesses, charities do not pass these increased running costs onto consumers and are therefore left with less of the money donated by supporters with which to spend on meeting their charitable objectives. There is therefore a need for Government to introduce policies that can help compensate for the increased financial pressures that charities are experiencing and that support innovation in order to ensure sustainability of the sector.

Protecting business rates relief for charities

13. Business rates relief for charities supports fundraising shops on the high street and helps charities to reach their objectives by reducing operational costs. For Cancer Research UK, this means that more of our funds can be spent on research into the causes and treatment of cancer.

14. Cancer Research UK has over 570 charity shops that make a valuable contribution to British society. Alongside fundraising for our life-saving research, our shops provide volunteering and job opportunities, raise awareness of our campaigns and provide information about cancer. The donated goods sold in our shops benefit the environment and provide affordable clothes for the UK public. The services and items Cancer Research UK shops provide stimulate visits to the high street and fill empty shops that otherwise might have stayed vacant.

15. We estimate that the value of business rates relief to Cancer Research UK was approximately £8.1m in our accounts for the year to 31 March 2015. Of this figure, £5.6m relates to our charity shops and £2.5m for our other buildings including research laboratories.

16. We have welcomed Government’s firm commitment\(^{68,69}\) to protect the 80% mandatory rates relief that charities receive in England and Wales. This commitment will help safeguard the sustainability of charity shops; an important fundraising stream for many charities, which also bring many direct benefits to society.

Ensuring the Apprenticeship levy can be used to develop skills needed in the sector

17. The Apprenticeship levy, which will apply from May 2017, will add around £500K per year onto the cost of our payroll. Overall, it is estimated that 1200 charities will be subject to the levy, collectively costing an estimated £70m\textsuperscript{70}.

18. Although we support the Government’s aim to increase skills, a number of challenges currently limit the ability of charities to use their levy contributions to grow skills that are needed in the sector. For example, volunteers - who are the lifeblood of the charity sector - will not qualify as apprentices under the current proposals set of by the Department for Education. For many, in addition to the valuable contribution they make, volunteering is also a way to get into the workforce by building confidence and learning valuable skills. Government should allow charities’ levy contributions to support accredited volunteer training and associated expenses.

19. The lack of existing training schemes, capacity and investment means that many charities are unlikely to be able to spend their levy contributions on training in the immediate term and there is a risk that they will be unable to do so before the funds expire. It is a serious concern to us that this could mean some of our supporters’ generous donations will be spent on unused levy contributions that will then fund the apprenticeship schemes of other organisations they have not donated to.

20. To build capacity will take both time and additional funds. Government needs to support the sector to identify key skills gaps and develop apprenticeship standards that would help address these. The Financial Secretary to the Treasury should work with the Apprenticeships and Skills Minister to allow charities more time and resource to do so, by delaying the expiry date of funds held in their digital account, and enabling some of their funds to be spent establishing apprenticeship schemes that will truly deliver the skills needed in the sector.

Enabling innovative collaboration between charities and industry

21. The UK public gave £9.6 billion to charities in 2015 and medical research charities received the highest proportion of total donations\textsuperscript{71}. In 2014, this enabled charities to fund over a third of all publicly funded medical research\textsuperscript{72}.

22. Cancer Research UK’s ambition is to accelerate progress and see three in four cancer patients survive their disease by 2034. Research is at the heart of our plan to reach this ambition and see cancers diagnosed early and treated well. Government and the NHS is also committed to improve cancer outcomes through research as set out in the Cancer Strategy in England\textsuperscript{73} and the NHS’ Five Year Forward View\textsuperscript{74}.

\textsuperscript{70}Charity Finance Group evidence to Sub-Committee on Skills, Education and the Economy inquiry on Apprenticeships.
\textsuperscript{71}https://www.cafonline.org/docs/default-source/personal-giving/caf_ukgiving2015_1891a_web_230516.pdf?sfvrsn=2
\textsuperscript{72}http://www.amrc.org.uk/sites/default/files/doc_lib/Medical-research-charities_investment_innovation_impact.pdf
\textsuperscript{73}http://www.cancerresearchuk.org/sites/default/files/achieving_world-class_cancer_outcomes_-_a_strategy_for_england_2015-2020.pdf
\textsuperscript{74}http://www.england.nhs.uk/ourwork/futurenhs/
23. One of the strengths of the UK’s research base is the diversity of funders and their collaboration. Two thirds of cancer research publications in the UK in 2011 that acknowledged external support, relied on multiple funders, while just under half benefited from overseas funding and a fifth were also supported by industry.75

24. It is becoming increasingly important to draw together scientists from different disciplines, countries and sectors to solve today’s biggest health challenge. Research funders need to work together to achieve this. Partnerships provide funders with the opportunity to leverage additional support and enhance progress through shared knowledge, resources and capabilities. The Francis Crick Institute (Case Study 1) is an exemplar of this concept.

25. However the extent to which charities, including universities, and industry can collaborate is hindered by current VAT rules on sharing of facilities, equipment and buildings. The Dowling Review76 acknowledged that levying of VAT on shared facilities is a significant disincentive to collaboration. It further highlighted this as an area where government policies act at cross purposes: researchers from universities/public institutes are encouraged to collaborate with business, but the tax system imposes significant costs if this is done at any scale. The Financial Secretary to the Treasury should review these VAT rules and amend these to ensure that they better support important and innovative collaborations between research charities and industry.

26. Case Study 1 – The Francis Crick Institute
The Francis Crick Institute will be a world-leading biomedical research centre in central London. The partnership forged to develop the Francis Crick Institute includes Cancer Research UK, the Wellcome Trust, the Medical Research Council, University College London, King’s College London, and Imperial College London.

The organisations in the consortium will invest a total of around £650 million to establish the Institute. When it is fully operational in early 2017 it will employ 1,500 staff, including 1,250 scientists, and have an operating budget of over £130 million per year.

The core of world leading researchers and cutting edge technologies within the Francis Crick Institute will be a magnet for the brightest and best scientists from around the world. In addition, through these founding partners the institute will build upon existing strong relationships with research centres across the globe, laying solid foundations for international collaboration.

Supporting research charities’ investment in English universities
27. Government provides vital, targetted support to charities by covering the indirect costs of their research, such as buildings maintenance, insurance and administrative functions. This is because charities are committed to covering only the direct costs of the research they fund. This ensures that the money donated to them, most often by the generosity of the general public, is spent on reaching their charitable objectives. Government covers the indirect costs of charity research through the Charity Research Support Fund (CRSF), which

75 OHE and SPRU, 2014, Exploring the interdependencies of research funders in the UK.
76 http://www.raeng.org.uk/policy/dowling-review/the-dowling-review-of-business-university-research
is the charity support element of Quality-Related research funding. Money from this fund is allocated directly to English higher education institutes (HEIs) that are successful in winning charity research grants.

28. Government’s investment through the CRSF provides crucial support to institutions that are successful in winning charity grants and ensures that universities are incentivised to seek charity investment. In 2013, Government’s £198 million investment through the CRSF leveraged £833 million investment by charities in English universities.

29. Since 2010, the real terms decrease in the CRSF has put pressure on universities to cover an increasing proportion of the overhead costs. This has been more keenly felt by those universities that specialise in medical sciences, which are strongly supported by charity funding. Many charities, including the Wellcome Trust and Cancer Research UK, are looking to increase their investment in research. To support this growing contribution from the charitable sector, the CRSF needs to increase in line with charity investment so that universities successful in attracting charity grants can continue to cover the overhead costs associated with this research.

30. Government made an important commitment to protect BIS’ science budget in real terms at the 2015 Spending Review. In line with this commitment and to provide long-term confidence in Government’s support for charity investment, the Minister for Universities and Science should commit to protect the CRSF in real terms and further increase the fund in line with any increases in charity investment.

31 August 2016

77 Actual investment made in 2013, taken from HEFCE’s annual funding allocations and the excel spreadsheets outlining QR charity support funding awarded in 2015/16 http://www.hefce.ac.uk/funding/annallocns/
Fundraising for Unpopular Causes

Submitted by Dr. Beth Breeze and Alison Body, Centre for Philanthropy, University of Kent.

Overview
Philanthropic support is a crucial source of income for most charities, especially during a period of public sector cuts. The growing public backlash against fundraising, evident in calls to restrict when, where and how fundraisers can ask for donations, is exacerbating the current difficult financial climate.

It is widely accepted within the charity sector that some causes are more difficult to fundraise for than others, and these so-called ‘unpopular causes’ seem especially vulnerable in the current climate. We therefore undertook a study to explore what is meant by ‘unpopular’ causes and how they might nonetheless attain fundraising success.

The final report Rising to the Challenge: a study of philanthropic support for ‘unpopular’ causes is available here: https://www.kent.ac.uk/sspsr/philanthropy/documents/Rising%20to%20the%20Challenge.pdf and we summarise the key argument and findings as follows:

Key Findings
1. Many recent efforts to grow and strengthen the culture of philanthropy in the UK have focused on two dimensions:
   1) Increasing the total amount of money donated to good causes.
   2) Increasing the effectiveness of philanthropic spending.

Whilst these are both admirable aims, they leave untouched a third, more controversial issue: the destination and distribution of donations. This is not an accidental omission. A defining characteristic of charitable giving is that it occurs on a voluntary basis, so most people – especially politicians and policy makers – are wary of promoting one cause above another or implying that any beneficiary group is more or less ‘worthy’ than any other. However, some cause areas have received preferential treatment as a result of government-funded matched funding schemes, such as those designed to increase philanthropic contributions to universities (2008-11), and for international development (ongoing). Further, the absence of much comment on, or significant research into, the destination of donations does not alter the situation that some groups succeed in attracting significant philanthropic funds whilst others struggle to secure any – or many – donations.

2. Britain is a generous country, but that generosity is not equally spread amongst all the tens of thousands of good causes seeking donated income. For example, using data from the Charity Market Monitor 2011:
There are 9 cancer charities in the top 100 most popular fundraising causes with a collective voluntary income of £656.5 million, but only 13 responding to all other types of health issues, with a collective voluntary income of c.£613 million.

There are 10 animal charities in the top 100 with a collective voluntary income of £534 million, but only 1 organisation responding to mental health issues, with a voluntary income of £16.7 million.

Whilst there are 10 arts charities in the top 100, with a collective voluntary income of £124 million, there is not a single charity supporting addiction issues, ex-offenders or refugees and asylum seekers in the top 250 charities by fundraising income.

Further, data from the Million Pound Donor Report series (https://www.kent.ac.uk/sspssr/philanthropy/whatwedo/charityresearch/couttsmilliondonor.html) shows a clear preference by the biggest donors for certain causes, namely Higher Education, and to a much lesser extent International development, the Arts and Health, over all other cause areas.

3. The categorisation of popular/unpopular causes is more complex than ‘top line’ cause areas. For example, within the category of the UK’s favoured cause, cancer research, different types of cancer attract more and less voluntary donations: whilst there are 2 breast cancer charities in the top 150 fundraising charities, there is no charity dedicated to bowel cancer amongst that top 150.

4. In order to identify what exactly is an ‘unpopular’ cause, we conducted an analysis of how the term is used in practice. We searched UK media sources from 1994-2014 and identified the ten types of cause most frequently described or depicted as unpopular:

1) Mental health (including suicide and eating disorders)
2) Refugees and asylum seekers
3) Offenders and Ex-offenders
4) Support for travellers/gypsies
5) AIDS/HIV
6) Domestic Violence
7) Child abuse
8) Prostitution
9) Homophobia
10) Drug and alcohol addiction

5. Our prior research into the motivations behind the charitable giving of both wealthy and non-wealthy donors are contained in two prior studies published by the Kent Centre on Philanthropy:

   - *Why Rich People Give* (by Beth Breeze and Theresa Lloyd)

   - *How Donors Choose Charities*, by Beth Breeze
     https://www.kent.ac.uk/sspssr/philanthropy/documents/How%20Donors%20Choose%20Charities%202010.pdf

These studies reveal that donors are primarily driven by a combination of personal preferences/connections to the cause and the fact of being asked, ideally well. This means that people are more likely to give to causes as a result of:
• Being aware of the need and convinced of its importance, most often because it has affected their own lives or that of their loved ones.
• Feeling connected to the cause and personally motivated to respond.
• Being asked, ideally in a polite and compelling way by someone they know and respect.
• Feeling appreciated by the charity, and gaining personal benefits that reinforce their decision to donate.
• Having confidence that their contribution will make a difference to a cause they care about.

6. Our study of fundraising for unpopular causes presents case studies of successful fundraising outcomes for charities representing each of the ten categories of ‘unpopular cause’. By identifying fundraising good practice we were able to list barriers to putting this best practice in place:

1) Lack of visibility of the cause – donors cannot be expected to support needs they are unaware of, so ‘unpopular causes’ need to focus on communications as well as fundraising, to ensure there is awareness of the cause they are serving.
2) Lack of clarity of the cause - complex causes need to work harder at explaining how their work is impactful in order to gain donor trust and confidence.
3) Lack of coverage of the cause in the media – related to barrier 7, but with a specific focus on the media’s tendency to cover the most palatable causes. The advent of social media opens new opportunities for more niche causes to gain attention, as exemplified by the 2015 phenomenon of the ‘ice bucket challenge’ which raised attention and huge sums for motor neurone disease.
4) Not having an organisational ‘culture of philanthropy’, i.e. lack of support for – and understanding of - the fundraising function by the charity leadership, colleagues and other stakeholders.

7. We suggest ten ‘top tips’ to uplift voluntary income for charities that are struggling to attract significant voluntary support:

1) Invest in Fundraising
2) Ensure you are actively asking donors for support
3) Take a holistic approach to fundraising, embedding it throughout the charity’s activities
4) Re-frame the cause to engage donors’ emotions
5) Empower cheerleaders and friends to fundraise on your behalf
6) Seize opportunities to raise your charity’s profile
7) Make donating an effortless and enjoyable process for donors
8) Be prompt and sincere in thanking existing donors and supporters
9) Demonstrate and evidence impact
10) Make donors feel part of something special

Conclusion and implications
In summary, the UK is a generous country, but this generosity is not evenly distributed or allocated according to objective criteria of ‘worthiness’, so all charitable organisations need to work hard to attract voluntary support.

Whilst we know that an individual’s decision to donate is hugely influenced by subjective experience and personal taste, we also know that they are unlikely to seek out charitable causes beyond their normal frame of reference or experiences. This means charities, especially those that perceive themselves to be unpopular and/or working in cause areas beyond typical donors’ experiences, must work harder to ensure they make their cause as visible and compelling as possible for donors.

This is not an impossible task, whilst we recognise that some causes are undoubtedly a tougher ‘ask’ than others, none should pre-emptively write themselves off as ‘unpopular’ and therefore unlikely to attract private support.

The role for government is to enable and encourage all charities to maximise their voluntary income, which involves paying attention to the distribution and destination of causes, as well as to raising the general propensity to give and the total amounts given. Some ideas to make this a reality include:

1. Increasing investment in capacity building, especially in the area of fundraising knowledge and skills, to grow the talent pool of fundraisers. Demand currently outstrips the supply of qualified and experienced fundraising practitioners, and this gap is likely to have the biggest impact on the causes viewed as ‘toughest’ to raise funds for.
2. Continue investing in initiatives that identify new ways to make the donation process, and take up of Gift Aid, as smooth and simple as possible.
3. Explore the global lessons to be learnt in how to engage trustees and high level volunteers in fundraising, in order to build institutional cultures of philanthropy.
4. Increase efforts to enhance the support for, and visibility of, volunteer fundraisers - especially those raising funds for less ‘popular’ causes - through all means available, including the Honours system, and use of government facilities for receptions.
5. Explore establishing government-funded matched funding schemes for causes that have not yet benefitted from the schemes already offered to cause areas such as Higher Education, the Arts and international Development.

5 September 2016
Submission to be found under Third Sector Research Centre
Charities Aid Foundation — Written evidence (CHA0089)

Introduction
0.1.1. The Charities Aid Foundation (CAF) is a registered charity that promotes charitable giving and provides financial services and social finance to not-for-profit organisations. We help individual donors give more effectively; support charities to allow them to thrive; advise businesses to allow them to achieve greater impact; and work internationally, harnessing local knowledge and expertise to help civil society thrive around the world. CAF works with government to improve the different ways that people are able to support charities, making it easier for people to give to the causes they care about. We advocate on behalf of civil society, highlighting the needs and concerns of the organisations that work within it and the people and companies who support them, so that decision makers and opinion formers can create a positive climate for charities to operate in.

0.1.2. CAF believes that charities need to renew their focus on the long-term health and influence of civil society, and that a key part of this is ensuring that their actions are conducive to maintaining the levels of public trust and support upon which donations depend. There is a duty and an expectation on charities to act in accordance with the wishes of their supporters. Due to their unique role in society, there is also a wider expectation that they should hold themselves to the highest ethical standards, and this must be taken into account even when faced with short-term pressures. Charities must retain their strong links to the public, and in order to do so they need to acknowledge certain key principles such as accountability and transparency.

0.1.3. Charities fulfilling their role and achieving impact in a thriving civil society depends on a positive, collaborative relationship with government. This is often viewed through the prism of service delivery alone, but the ability of charities to advocate and campaign on behalf of their beneficiaries is integral to a functioning democracy. Recent policies that have restricted charity campaigning are damaging and represent a direction of travel that must be reversed.

0.1.4. Like all sectors, charities will be affected by Brexit, the process of the UK leaving the European Union. CAF believes that there are many opportunities for charities to be a part of the new settlement that the country develops. This is particularly relevant in areas such as strengthening community cohesion, giving a voice to those who struggle to make themselves heard, making localism and devolution work effectively, and helping to retain and enhance the UK’s role in the world. Delivering Brexit effectively necessitates positive engagement between charities and government who, let it be stressed, share many of the same aims.

1. The purpose of charities
What is the role and purpose of charities in civic England and Wales?

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78 For more information about CAF visit: www.cafonline.org
1.1.1. Charities, in various forms, have existed in his country for more than a thousand years. Traditionally, their role was primarily to provide welfare for the poor and the sick, long before the state accepted any responsibility. Since the introduction of the Statute of Charitable Uses (1601) as part of the package of poor laws, the state has taken on a greater degree of responsibility for welfare provision. The role of charity has thus been shaped by its relationship with the state (and shaped the nature of the state in turn), and the balance of this relationship has shifted back and forth over time. Then in the early 20th century, the groundwork was laid for the eventual introduction of the welfare state in the 1940s, and threw into question the ongoing role of charities. At first, many charities renewed their focus on campaigning for social change as the apparent need for direct service declined, but over time it became apparent that even within the context of a welfare state there was a need for charities to supplement, augment, and challenge public provision.\textsuperscript{79}

1.1.2. Charities make an enormous contribution to communities. CAF’s \textit{Charity Street II} report found that almost all households have used a charity service at some point in the past, and levels of support and trust in charities compare favourably to other sectors.\textsuperscript{80} As a result, it is not surprising that donors in Britain compare favourably to those across the world, supporting charities in a number of ways to help them deliver their charitable mission.\textsuperscript{81, 82} Some of the different ways that charities contribute to communities include through providing support and services, advocating on behalf of their beneficiaries, and working in partnership with government to deliver a long-term shared vision of a fairer society.

1.1.3. Volunteers make an essential contribution in helping charities to have such an influence. Whilst a number of people give their time extremely generously, more work needs to be done to broaden civic participation.\textsuperscript{83} This is particularly relevant to the older generation, with those entering retirement keen to use their skills to make a contribution but unsure about how best to turn this into practical action.\textsuperscript{84} The cross-party Growing Giving Parliamentary Inquiry proposed the creation of a Post-Careers Advice Service to signpost retirees towards volunteering opportunities, and CAF is currently exploring the viability of that proposal.\textsuperscript{85}

\textsuperscript{79} For more detail on the shifting role of charity within society, see CAF’s recent book \textit{Public Good by Private Means: How philanthropy shapes Britain} \url{https://www.cafonline.org/my-personal-giving/long-term-giving/resource-centre/public-good-by-private-means}

\textsuperscript{80} For more information about the usage of charity services, see Charity Street II, available at: \url{www.cafonline.org/about-us/publications/2016-publications/charity-street-ii-a-report-into-how-we-use-charities-in-the-uk}

\textsuperscript{81} More information about giving levels in the UK can be found in UK Giving 2015, accessible at: \url{www.cafonline.org/docs/default-source/personal-giving/caf_ukgiving2015_1891a_web_230516.pdf?sfvrsn=2}

\textsuperscript{82} International comparisons about charitable support can be found in \textit{World Giving Index}2015, available at: \url{https://www.cafonline.org/about-us/publications/2015-publications/world-giving-index-download}

\textsuperscript{83} More information about participation can be found in Britain’s Civic Core, accessible at: \url{www.cafonline.org/docs/default-source/about-us-publications/caf_britains_civic_core_sept13.pdf?sfvrsn=5.pdf}

\textsuperscript{84} More information can be found in Creating an Age of Giving, p. 33-36, available at: \url{www.growinggiving.org.uk/assets/files/GUG-PART-Web.pdf}

\textsuperscript{85} More information about the Growing Giving Parliamentary Inquiry, including reports and a series of recommendations, can be found at: \url{www.growinggiving.org.uk/}

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2. Pressures and opportunities

What are the main pressures faced by charities currently, and what impact have these had?

2.1.1. Charities have struggled due to the economic challenges of recent years, with many placed in a position in which they are struggling to do more with less. Indeed, research carried out by CAF and ACEVO has found that charity leaders are acutely aware of the challenges posed by the financial climate.\textsuperscript{86} Whilst charities should of course join other organisations in seeking to find efficiencies, there is a limit to how far resources can be stretched before an organisation reaches breaking point.

2.2.2. The changing nature of charity funding from government has also had implications. Fewer and fewer charities are now provided with grant funding, with those in receipt of government funding much more likely to obtain it via contracts given to provide services. This has led to charities competing directly with businesses, many of whom have the advantage of experience in bidding for contracts and delivering services, even where they cannot match the expertise and personalisation that charities can offer. This has had particular repercussions for smaller, local charities, which lack contract negotiation skills and cannot demonstrate the scale that larger organisations often rely on when making successful bids.

2.2.3. Brexit is another significant challenge on the horizon; with concerns about what it will mean for policy in a number of areas, how it may affect funding, and possible issues concerning cross-border giving. A lack of clarity exists, but in that regard charities are not alone. However, Brexit also offers an opportunity for charities to shape the development of new domestic policies, and use their undoubted reach and status to help the transition away from the EU. There is also an important role for charities in building community cohesion and seeking to heal some of the divides that arose over the duration of the referendum campaign. A successful Brexit necessitates the involvement of charities at every level, and the Government should seek to draw upon their reach and influence to deliver Brexit effectively for everyone.

2.2.4. Charities must also develop positive relationships with younger audiences. As the Growing Giving Parliamentary Inquiry discovered, many young people have extremely positive attitudes towards charities but lack awareness about how to turn that into practical action. CAF has sought to help unleash that potential by partnering with UCAS and creating advice for young people about how they can use their participation in social action to bolster their university and college applications.\textsuperscript{87} However, much more work needs to be done for charities to better understand how the next generation of donors and volunteers plan to engage with charities, and the role they see for them in society.

3. Innovation

How do charities seek to innovate, particularly in the digital arena?

3.1.1. Many charities – particularly smaller organisations – struggle to keep pace with the constant changes and developments in the digital world. Charities often do not have access

\textsuperscript{86} For more information about the perceptions of charity leaders, see Social Landscape, available at: www.cafonline.org/docs/default-source/about-us-publications/caf-social-landscape-report-2015.pdf?sfvrsn=4

\textsuperscript{87} A digital version of this guidance can be accessed at: www.growinggiving.org.uk/ucas-give-and-learn
to the latest technology, which is particularly problematic given the increase in digital engagement, including donations. Support from government for NESTA through the Innovation in Giving Fund to investigate the potential of innovation for charities has been fruitful, and indeed the Growing Giving Parliamentary Inquiry recommended an integral role for government in providing support to help charities develop digitally. The capacity and expertise of government in this area could help to unlock digital opportunities for charities, and should continue to be a focus of activity.

3.2.2. Digital innovation is particularly important to engage with young people in a way that works for them. Research carried out by CAF and YouGov found that young people are much more likely to engage in digital giving than older audiences, with a particular appetite for donating through apps as well as demonstrating their support for causes via social media.\(^{88}\) Charities must meet these demands to ensure that future generations give as generously as previous ones.

3.2.3. Charities can also seek to be early adopters of new innovations, which may enable them to take advantage of behavioural shifts generated by technological evolution. CAF’s Giving Thought think-thank has examined the potential that Bitcoin and blockchain technology hold for charities.\(^{89}\) These potentially represent a revolution in the way that assets and ownership are recorded, with implications for many areas of life, and we believe that there is a significant opportunity for charities to harness these technologies to further their missions and enhance their relationship with supporters.

5. Governance and leadership

What role should trustees play in the performance and effectiveness of a charity?

5.1.1. Effective charity governance relies on a representative trustee board, reflecting the make-up of society. Concerns about under-representation include an acknowledgment that young people make up a disproportionately small number of charity trustees. The Growing Giving Parliamentary Inquiry recommended that action be taken to encourage more young people to become trustees.

5.1.2. CAF partnered with young trustee Leon Ward to run the Young Trustees Survey, which sought to explore the reality of life as a young trustee and areas in which charities and trustee boards can take action to improve representation. Using the learnings, we created the Young Trustees Guide, which explored some of the different routes into trusteeship, and provided guidance to both charities and young people about how to make trusteeship work effectively.\(^{90}\) CAF has since held discussions with charity regulators across the UK about

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\(^{88}\) This research can be found in Appetite for Donation, which can be accessed at: www.yougov.co.uk/find-solutions/whitepapers/appetite-donation/


\(^{90}\) A copy of this guidance can be accessed at: www.cafonline.org/docs/default-source/about-us-publications/youngtrusteesreport_1682a_web_080915.pdf?sfvrsn=6
monitoring levels of young trustees, and believe that engaging young people in charity governance is essential to preserve the long-term viability of the sector.

8. **Social investment**

*What is the potential of social investment and social impact bonds?*

8.1.1. Social investment — the use of money to try and deliver both financial returns and measurable social returns - is not actually a new idea. However, it has come to prominence in recent years, in particular in the form of social impact bonds. We believe that social investment is a powerful tool in some circumstances, and hence we operate one of the longest-standing social investment funds in the UK, CAF Venturesome. The ongoing challenge for the development of social investment is to make sure that the needs of charities and social enterprises are at the heart of the products and services being delivered, and that supply reflects demand. The evidence shows that the vast majority of demand is for fairly simple repayable finance in the form of low-cost loans. But there is a danger that a particular ‘finance-first’ view of the market, coupled with political enthusiasm for complex structures like social impact bonds, results in a proliferation of exotic social investment products for which there is little demand.

9. **The role of the Government**

*What should the role of government be with the sector?*

9.1.1. Charities and government both benefit from a collaborative relationship in which government creates a positive climate and framework for charities to operate in, whilst also providing them with the freedom and space to act independently. These relationships should be developed across both central and local government.

9.1.2. Increased devolution and localism offers significant opportunities for local charities, although they are yet to have the input into devolution deals that other sectors have secured to ensure that devolution works for them. Local charities are strongly supported by the public; it is important that this support is met with action by government, and that the potential of local charities to make devolution work for communities is harnessed.

9.1.3. Governments of all colours look to use their resources to make their mark on civil society; in recent years this has notably included the Big Society agenda, and a focus on youth social action and social investment. Whilst each of these areas is important, difficulties for charities exist if projects become too aligned with a specific party as they are then likely to be dropped when there is a change of government. Government and political parties should seek to work with charities to develop a medium-term view of what the challenges and opportunities for charities are, and work collectively with them to create solutions and projects that are sustainable, meet the needs of the sector and cross party divides.

91 For more on the history of social investment, see this article: https://www.pioneerspost.com/news-views/20160324/the-longer-you-might-think-history-of-social-investment
92 https://www.cafonline.org/charity-finance--fundraising/borrowing/social-investment
9.1.4. The Charity Commission has an important role to play, and charities should welcome the presence of a strong regulator, because holding charities guilty of wrongdoing to account is an important part of maintaining public trust in charities. However, over recent years the relationship between the Commission and charities has become increasingly adversarial, with concerns voiced about the regulator becoming politicised. The Commission must remember that a core part of its remit is to increase trust, and that enforcement and public scrutiny are just two of the tools available to achieve that. A more positive, supportive relationship between charities and the Commission would be to the long-term benefit of the sector.

9.1.5. Government has taken an increasingly negative view of charity advocacy, and pursued policies restricting upon the ability of charities to campaign on behalf of their beneficiaries, including the Lobbying Act and the anti-advocacy clause, which has been ‘paused’ before being implemented in full.\(^{95}\) This is not restricted to government itself; recommendations from the Public Affairs and Constitutional Affairs Committee (PACAC) would, if implemented, significantly restrict some of the historic freedoms upon which the very nature of charity has developed. In addition, several other backbench MPs have voiced their concerns about charity advocacy.\(^{96}\) This has led to what has been termed the ‘chilling effect’ in the UK, and a part of the international ‘closing space for civil society.’

9.1.6. Charity advocacy is strongly supported by the public, and there is a sense amongst charities that government has taken action to remedy a problem that does not exist. In turn this has had the effect of restricting scrutiny of government actions.\(^{97}\) Threats to charity advocacy risk removing a voice that many people rely on in the political process; disempowering donors, who may support charities specifically because of their advocacy remit; worsening public scrutiny and leading to poorer policymaking; and weakening the UK’s status and reputation as a liberal, pluralist democracy. Preserving the freedom for charities to advocate should be an essential part of any future discussions about individual or collective rights in the UK.

10. Lessons from other sectors and countries

What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

10.1.1. Members of CAF’s Global Alliance, our network of international offices, will be providing the Committee with independent evidence about the successful approaches to facilitating civil society in the countries in which CAF operates.\(^{98}\)

10.1.2. CAF believes that charities can play a key role in retaining the UK’s international influence through their contribution to soft power. The concept of soft power has been embraced by a number of government departments, and we urge the Department for International Development to put charities at the heart of delivering their global

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\(^{95}\) A more detailed discussion of threats to charity advocacy can be found in *Do As I Say, Not as I Do*, accessible at: [www.cafonline.org/docs/default-source/about-us-policy-and-campaigns/closing-space-report-2016](http://www.cafonline.org/docs/default-source/about-us-policy-and-campaigns/closing-space-report-2016)

\(^{96}\) *Ibid.* p.17

\(^{97}\) *Ibid.* p. 12

\(^{98}\) More information about CAF’s Global Alliance can be found at: [www.cafonline.org/about-us/global-alliance](http://www.cafonline.org/about-us/global-alliance)
engagement and influencing strategy. This should include seeking to use the UK’s influence and resources to encourage other countries to put into place the structures and frameworks upon which a thriving civil society depends.\textsuperscript{99}

10.1.3. It is also imperative that the UK sets a positive example for other countries. Many countries across the world look to the UK’s model of civil society for guidance, and recent restrictions on charity advocacy have led to the UK being condemned by the United Nations and international civil society organisations. Repressive policies here risk being used to legitimise the silencing of civil society organisations in less free and fair countries, and it is important that the influence that the UK wields via its treatment of civil society organisations is taken into account, and their rights and freedoms respected.

\textit{5 September 2016}

\textsuperscript{99} CAF’s Future World Giving project has been investigating how governments can build strong civil societies globally. More information about the project, including a series of internationally acclaimed reports, can be found at: \url{www.futureworldgiving.org/}
Innovation: How do charities seek to innovate, particularly in the digital arena?

1. About Charity Checkout

1.1 Our mission

Charity Checkout was founded by Chester Mojay-Sinclare in late 2011, with the core mission of helping charities to increase funding through digital channels. In particular, Charity Checkout aims to help small or local charities to modernise and develop online fundraising into a sustainable income source. Charity Checkout now has over 1,200 charity clients, has helped raised over £8,000,000 for charity and currently employs 21 people in its fast-growing team.

1.2 Our service

Charity Checkout offers everything a charity needs to collect and manage online donations, from a mobile-optimised website through to a donation platform and donor management suite. Our platform allows the charity to instantly accept one-off and recurring donations via credit card, Direct Debit and mobile payments. This empowers even the smallest charities to compete effectively with the largest and best funded charities, when it comes to fundraising via their own website and social media profiles. Charity Checkout is currently researching and developing new innovative services that will help change the way charities fundraise online.

1.3 Our perspective

Charity Checkout is an agent for change, resulting in millions of pounds of new funding flowing into local charities each year, due to the increased convenience of online giving that we provide to our charity clients. This gives us a unique perspective on how innovation in the digital arena can be used to help the charity sector, specifically local charities whom we work with every day. The following submission contains both opinion and evidence from our own market research, which Charity Checkout has carried out to identify how charities are adapting to modern technology. We also have information to share based on the insights we have gained from our existing 1,200 clients.

2. What barriers are there to being innovative?

2.1 Charities do not have the right online tools to succeed

There is a growing concern that given the recent funding cuts, many local charities will cease to exist if they are unable to raise donations from the public. These organisations are often a central part of the community in which they work, and so also have great potential to develop a committed donor base. Nevertheless, despite the opportunity for local charities to increase their donations, there are significant issues around their ability to effectively fundraise online. The vast majority of local charities still do not accept donations via their website or social media profiles, and 45% of the 500 newly registered charities we assessed from May/June
2016 have a website that is not mobile optimised. Furthermore, the majority of established small charities do not accept donations online, thus restricting their ability to raise funds. This stems from both a lack of knowledge and available technical resources, the latter of which is our primary focus.

2.2 Where exactly are charities falling short in digital fundraising?

- 58% of small charities lack basic digital skills compared with 23% of SME’s and 59% of small charities do not accept donations online (Lloyds Business Digital Index 2015)
- Local charities often lack strong digital and marketing skills
- Technology is a means, not an end: its application must link into the overall strategy, which is not always the case with charities
- Digital exclusion leads to operational inefficiency; knowing how to make best use of the tools available is key
- A lack of collaboration and knowledge sharing leads to common mistakes across the sector
- Trustees do not always understand the benefits of innovation and technology, which can restrict the exploitation of digital opportunities

As 59% of small charities do not accept donations online, it is difficult for donors to support them when compared with national charities. This leads to local charities failing to maximise their funding through donations. This research is mirrored by our own customer base, of which 55% were new to online donations before joining us. We believe that by addressing this digital exclusion we will continue to increase funding to the sector.

A recent in-house study conducted by Charity Checkout of 500 recently registered charities from May/June 2016 showed that, of the 60% with websites, 45% were not mobile responsive and over 85% lacked ‘an attractive and professional design’ in the view of the assessor. Charity Checkout offers attractive low-cost websites for the sector that are mobile-optimised, support built-in online payments and can be live within days.

We also believe that there is a significant opportunity to increase funding for local charities by tackling the reluctance of some trustees to adopt a digital approach, through digital training, education and awareness building.

Charity Checkout offers in-house support so that charities can accept online donations within 48 hours of joining. Our platform offers an effective and secure way for charities to increase donations via their own website; and we can supply charities with their own mobile-optimised website within a few days if they do not have one already. We believe this approach is preferable when compared to charities having to rely on external fundraising websites, which require the supporter to establish a relationship with the fundraising website, rather than directly with the charity.

“Online giving has proven to be very efficient. Previously we would request confirmation of receipt before thanking donors. The branded aspect of Charity Checkout’s online donation system has been vital. Donors are wary of using their credit/ debit card online but branded donation pages make the entire process more
2.3 Our findings of charities using external sites for digital fundraising

- They are used when there is a lack of resource and confidence within the charity preventing them from building this function into their own website.
- They lack personalisation and brand identity which creates poor recall of the charity, low supporter loyalty and less being given.
- Higher processing costs and per transaction fees reduce the income the charity receives (using Charity Checkout or another built in system would save some charities over 4% in transaction fees).
- Using external sites creates a three way donor relationship which means the charity itself loses the ownership.
- Security ratings can sometimes be poor exposing donor’s data and damaging trust.

“The management team believe it is vital for Hope for Kids International that donors can give immediately via the website. The fact our donors can see our logo, branding and information ensures that they feel they are giving directly to us, which increases trust and security.”

Roger Allen, Executive Director - Hope for Kids International

The Online Giving study by Network for Good showed that, on average, people give 38% more via branded donation pages. This creates a good impression, improves supporter recall and loyalty, increases trust and reduces checkout abandonment. Our platform can be customised with branded pages to give charities professional looking online campaigns.

“It integrates fully into our site – including automatic Gift Aid – and so allows us to keep donors on our own website. Before we started using them, our analytics showed that people would disappear once they clicked from our site into another to finalise their donation. Our stats now show that we are keeping the user with us after donation. I think donors trust the process more because they’re donating directly to us. And, since we’ve brought in a direct debit option using their system our donations have increased by 600%.”

Alex Smith, CEO & Harrison’s Dad - Harrison’s Fund

We believe there is a place for fundraising websites, as they can help the public to identify and select from various campaigns. However, in our view even those that specifically support local charities do not offer small charities the best route to becoming sustainable and self-sufficient when it comes to fundraising digitally.

2.4 Charities that do offer online giving often lack key features
Charity Checkout — Written evidence (CHA0051)

Charity Checkout has found that 60% of charities do not process Gift Aid via their online donation system, which reduces their potential revenue by up to 25%. Any retrospective collection of Gift Aid declarations via email or in writing following an online donation is inefficient and uses valuable resources that could be used elsewhere. This is often the case when small charities implement systems that are not charity sector specific.

We also found that 62% do not have a regular giving option within their online donation system. These recurring payments can provide charities with a much needed regular income source, given that 37% of online donations are regular. An average £5 monthly donation offers more value than a single donation of £100, since more is given over time. Therefore, the 62% of charities that are not offering this as part of their online giving options are missing out substantially.

We used random sampling in our research, for unbiased representation, collecting information over the telephone. Over 2,000 charitable organisations took part in our research from across England and Wales.

Charity Checkout supports regular giving, leaving charities to focus on recruiting regular supporters who provide a new means of secure and stable income. As an approved HMRC agent Charity Checkout automatically reclaims Gift Aid on the charity’s behalf to maximise their revenue.

**What more could be done to promote innovation, and by whom?**

**3.1 The opportunity for small and local charities**

We believe that there is huge potential to increase giving at a local level, but that this untapped funding can only be reached by local charities offering effective online giving to their supporters. We have seen this potential realised first hand, through the success of our own charity clients. We see our role as a facilitator; we believe that whilst local charities also need digital training and support, this cannot be expected to have an impact without charities having the facilities to capitalise on it.

Charity Checkout has helped over one thousand local charities to start accepting donations via their website and social media profiles. Over 75% of those charities did not accept regular donations via their website previously, and 55% did not offer any method of online giving
prior to working with us. Charity Checkout has helped some local charities increase their donations by as much as 600%.

3.2 How can the shortfalls in digital fundraising be overcome?

- Further support and investment for local charities to adopt mobile-optimised websites and online payment systems such as ours
- Training and education for local charities focused on the digital arena
- Partnerships between with relevant stakeholders for added value and support
- Identifying the trends and digital success stories will help to change attitudes among trustees to online fundraising
- Limit checkout abandonment by providing donors with easy to use online payment systems (Eduserv, the not for profit IT provider, found 32% of charities require donors to complete over 20 fields and clicks on their website before they can actually donate)
- Websites made mobile friendly to avoid being penalised, optimised for charitable giving, inexpensive and rapidly launched (The Office for National Statistics found internet access using a mobile phone more than doubled between 2010 and 2014, from 24% to 58%. Eduserv found only 62% of charities have sites optimised for mobile. And Google, that 36% of all searches in the "Donations and Charitable Giving" sector are now on mobile devices and this is forecast to grow.)

Charity Checkout offers bespoke mobile-optimised websites and a complete payment platform at a fraction of the cost of developing one in house, which helps charities to overcome the common digital pitfalls. Our services save administrative time and promote advocacy amongst donors, including features such as integration with social media, regular giving, automatic Gift Aid reclaim, payment page customisation and multiple campaigns - all with simplicity at its core. As a social business, we operate a grants scheme for small charities and look to collaborate with partners to provide charities with the support they need.

3.3 Our vision of the future for charities

- Local charities recognising the value and importance of digital fundraising more and more each year
- Charities taking back ownership of their digital profile to raise more income via their own website, therefore not relying as much on external fundraising websites
- The sector investing in its brand to inspire support and build a stronger association: better relationships create donor loyalty
- Older methods of fundraising - cheques and standing order forms, will be replaced with digital methods
- Consistently approached campaigns across all marketing channels will become more common amongst smaller charities
- A donor driven approach to transacting online will be more widely adopted
- Mobile giving will lead the way (PhonepayPlus, Annual Market Review for 2015/6 published a 6% increase in donations by text, highlighting its importance as a lucrative income stream)
- Mobile responsive websites offering an ‘on the go’ experience will be the norm
● Measurable insights which identify successes to repeat and costly mistakes to avoid will be more openly shared

2 September 2016
1. The Charity Commission is the independent regulator and registrar of charities in England and Wales. It is a non-ministerial department with quasi-judicial powers, accountable to Parliament. The Commission was created as a body corporate, and given its current statutory objectives, functions and duties, in 2006, when Parliament passed the Charities Act (consolidated in 2011 and now known as the Charities Act 2011).

2. Over the last year, there has been an increased media, public and parliamentary focus on the role of charity trustees, their capability and effectiveness. The Public Administration and Constitutional Affairs Committee’s two recent reports, on fundraising and on the collapse of Kids’ Company, both highlighted failures of trustees to fulfil their responsibilities while the Etherington Review of fundraising concluded that “Charity trustees have too often been absent from discussions on fundraising practice or values.”

3. Like all regulators, the Charity Commission exists so that the public can trust the sector we regulate, and Parliament has set as one of our statutory objectives increasing the public trust and confidence in charity. In June 2016 we published the latest report in our long term tracking of public trust and confidence in charities. This showed a significant drop for the first time since we began tracking public trust in 2005. Time will tell whether this is a long term trend or a short term dip but it is our view that both the leadership of the sector and the regulator should respond to this drop in confidence.

4. We know that our compliance work and enforcement action is crucial to ensuring the public has confidence that charities are well run, but it is not sufficient alone. We can see from our research that the public also wants to know that most charities are well managed, ensure a reasonable proportion of donations make it to the end cause, and are making a positive difference to the cause. Enabling trustees to run their charities effectively and encouraging greater transparency and accountability are key to securing public confidence. More work must be done to support trustees; enabling them to meet the requirements of the law and the expectations of the public. This will also help to avoid the unintended consequence of deterring those who may be capable of being effective trustees from volunteering. As regulator we know we must balance strong compliance messages with a recognition of the importance of skilled, capable trustees to the health and sustainability of the sector, as well as the benefits of trusteeship for the individual.

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5. Inadequate governance is at the root of the majority of our compliance casework. A significant proportion of serious concerns we encounter result from a basic failure of trustees to fulfil their 6 key duties, leading to poor governance. Our annual report of our compliance work, *Tackling Abuse and Mismanagement*, sets out the key themes and lessons from our casework for trustees and consistently highlights unmanaged conflicts of interest, unauthorised trustee benefits, breaches of governing document and other serious problems resulting from failures in governance.

6. Meanwhile the operating environment for charities has changed substantially over the past decade, with changes in funding structures forcing charities to explore new business models. For example, moving from grant funding to public sector contracts and trading requires trustees that understand the need for change and capability to deliver it effectively. It also carries more responsibilities and pressure for charities to be accountable for their decisions and their stewardship. Furthermore, many parts of the charitable sector now find it is harder to get state funding. Navigating these challenges requires strong strategic leadership and the ability to take managed risks; we see many boards failing to rise to the occasion.

7. The Commission, as regulator, has a clear role to play in this area. We have the primary responsibility for recognising trustees through the register of charities, for setting out their responsibilities and duties under the law in our guidance and enabling them to run their charities effectively and comply with the law, and for holding trustees to account where there has been misconduct or mismanagement. We also have a general statutory function to encourage and facilitate the better administration of charities, and a general duty to act in a way which is compatible with encouraging voluntary participation in charity work. However under the Charities Act 2011 the Charity Commission is specifically not authorised to be directly involved in the administration of a charity.

8. This Select Committee’s inquiry, considering issues affecting the sustainability of the charity sector and the challenges of charity governance, is therefore very timely. We welcome the Committee’s work.

9. We have outlined in this submission some of the work we are currently engaged in which is particularly relevant to the Committee’s areas of inquiry, and may merit further attention. We would be happy to provide the Committee with further information on any of these subjects or on other areas of the Charity Commission’s work.

**Raising the quality of trusteeship**

10. We believe that the challenges of stewarding charities in today’s context have increased and that the sector therefore requires a higher quality of trusteeship. That is created by making coordinated improvements on three fronts:
10.1. the regulatory and governance framework - the standards and rules of engagement - within which charity boards operate;

10.2. the availability and quality of guidance, training and support to trustees; and

10.3. the adequacy of the supply of trustees.

Regulatory and governance framework

11. The Commission already undertakes an extensive programme of work to provide advice and guidance to trustees, to increase their understanding of how to run their charity effectively and to promote trusteeship. We publish a suite of core guidance for trustees on their duties and responsibilities. We have been working to revise our guidance and make it easier for everyone to read and access, from our core publication The Essential Trustee (CC3) last year to key pieces of guidance this year on fundraising and financial resilience. We have been writing in a simpler, more direct style to make it easier to understand, and we are doing more to promote our guidance directly and with partners in the sector to increase reach and awareness of guidance. Parliamentary direction would be required for any fundamental and wholesale changes to governance and the role of trustees. There are some areas which might merit examination. For example, there has been some debate recently regarding the principles around remunerating trustees and the distinction (or not) between the role of chair and trustee.

12. Other institutions, both within and from outside the sector, also set governance standards that guide trustees in their roles. We support a number of sector-led initiatives to set standards and promote effective governance. We support the Good Governance: a Code for the Voluntary and Community Sector (the Code), jointly owned by a number of charity umbrella and membership bodies, and have observer status on the Code Steering Group. We very much support and endorse the review of the Code announced in February 2016 which the Chair of the Code Steering Group set out as “a big conversation and debate about the standard of governance our sector needs to aim for in the coming decade, what it will take to make a measurable shift and how we can use the code to raise the bar.”

Guidance, training and support

13. Through communications channels such as the Commission’s blog, articles and speaking engagements we promote our guidance and other resources for trustees to meet their responsibilities. Our transformation programme is designed to increase our reach and impact with fewer staff, largely through effective digital communications such as social media, podcasts and webinars to promote our guidance and tools. We are reviewing and improving our digital ‘induction pack’ for trustees of new charities, signposting them to the Commission’s guidance and other sources of advice and support, and we will begin
sending it to newly appointed trustees of existing charities where we have email 
contacts. Ultimately, as part of this transformation programme, we aim to create a one-
to-one relationship with each of our 165,000 charities through a dedicated charity 
services portal.

14. We work with sector bodies to increase the reach of our guidance and messaging, using 
their network of contacts, and supporting and endorsing tools and products designed by 
the sector to augment the Commission’s guidance for trustees, such as NCVO’s Good 
Trustee Guide or the guidance produced by the Small Charities Coalition tailored for 
smaller charities. We also work with sector bodies to help them develop and promote 
quality standards in charity governance.

15. We also continue to work closely with other government departments and sector bodies 
on matters concerning charity governance and the legal framework in which charities 
operate so that this is understood and the integrity of charity is not undermined.

16. We will be using Trustees’ Week in November as a focus for resources and support for 
trustee learning and development, with the theme of this year’s Trustees’ Week being 
“Stronger charities through good leadership”. We will work with partners to use the 
Trustees’ Week website as a permanent digital hub for events, information and learning 
resources. We also support and endorse training programmes, qualifications and 
products which include mandatory modules on The Essential Trustee (CC3), such as the 
ICSA Certificate in Charity Law and Governance, IOD’s Role of the Trustee course and the 
Trustee Academy.

17. The Commission is also participating in the Funders’ Collaboration on Leadership, which 
brings together 50 individuals from funders, umbrella bodies, social sector organisations 
and government to develop new initiatives to tackle key priorities in the sector: one 
working party is looking at improving the standard of governance by informing and 
upskilling trustees, and will bring forward a pilot proposal later this year.

**Trustee supply and turnover**

18. At the moment the Charity Commission encourages charity boards to consider 
appropriate board turnover and succession planning, the need for appropriate trustee 
skills and capability, and the importance of diversity in supporting effective decision 
making. Where we have regulatory concerns, we can give a charity regulatory advice to 
regularise its governance arrangements. However we have no legal power to mandate 
boards in matters such as trustee terms of office, capability or turnover.

19. A key consideration is the pipeline of supply of new trustees, where many charities – 
particularly small and medium sized organisations – tell us they struggle to recruit
trustees at all. Ensuring that trusteeship is recognised as a skilled volunteering opportunity with benefits for the individual and his or her employer, as well as for the charity, is key. Private and public sector organisations should be encouraged to recognise the benefits of their employees becoming trustees. Should the Government bring forward legislation to create a new statutory right to volunteering leave, we would want to ensure that trusteeship is supported and recognised within that.

20. We already work with a number of charity and commercial organisations providing trustee recruitment services through the Trustees’ Week initiative. We will continue to promote better recruitment practice based on skills, needs and diversity (including under-represented groups such as young people). We are also examining the feasibility of supporting the development of a sector-led recruitment hub or portal, or enabling charities to advertise trustee vacancies on the public register of charities.

**Evaluation and impact measurement**

21. Neither the Office for Civil Society, the Charity Commission nor the sector’s support and advisory bodies have any reliable baseline of the state of trusteeship among the hundreds of thousands of individuals who undertake the role, to enable us to target information and awareness-raising campaigns effectively. An effective understanding of the extent and detail of the state of trusteeship would enable Government, the Commission and the sector to reach trustees better and measure progress in raising awareness and expertise, and in growing the pool of skilled potential trustees. We are therefore working with the Cass Business School Centre for Charity Effectiveness and the Cranfield Trust to conduct a major piece of research this year with three aims:

21.1. An analysis and assessment of current levels of trustee awareness of their duties and responsibilities, to provide evidence that supports the case for change and to provide a baseline from which the impact of any initiative to target and increase trustee awareness may be measured.

21.2. An analysis of the current state of charity trusteeship (utilising access to relevant Charity Commission data sources) to inform our understanding of the wider context: who are trustees? Are they appropriately skilled? Are they sufficiently aware of their duties? Are current expectations of current legal requirements, operational responsibilities, and regulatory, moral and cultural expectations realistic and appropriate?

21.3. Establishing a baseline for a possible future longitudinal study, to measure the change and impact on trustees’ interventions and overall trustee understanding of their role and responsibilities
22. The Commission will continue to improve our online user metrics for our guidance to understand how users access our guidance and where they reach us from, and further refine our channels and tools for promoting guidance. We are developing a model for impact evaluation of our guidance, which we plan to pilot on *The Essential Trustee* (CC3) in 2016.

**Accountability**

23. Our report into public trust and confidence also showed that the public wants to see charities explain more and account better for how they manage and spend their money, they want to see honest and ethical fundraising, and they want to know that charities are making a positive difference to their causes. We can also see that when people know more about a charity their trust and confidence in charities generally increases.

24. There are a number of ways charities can ensure that they are properly accountable to their beneficiaries, their donors, and the general public. Charities should make connections with the public, meet high standards for raising and managing money, explain all this clearly, and show how they are making a difference to the cause.

25. We published a sample survey on how well charities were doing on public benefit reporting earlier this year. A lot of charities explain what they do (their activities), but do not explain how what they do makes a difference (their impact). We have produced guidance which explains the duty that charity trustees must report on how they have carried out their charity’s purposes for the public benefit.

26. Producing simple, clear and easily accessible annual report and accounts on time will help to demonstrate accountability and explain to the public how much money is spent on support costs, governance and fundraising.

27. Many charities and charity leaders are already responding positively to the challenge to respond to public concerns about accountability, transparency and fundraising. But there is certainly more work to do. Charities need to get the message out to the public that things are changing, and show that they care about winning back public trust.

28. The Commission is working to do more to improve and promote the data we hold on charities, to help people understand more about the work of individual charities and the sector as a whole. We are doing more to help the public understand our work and the modern charity context in which we operate.

**Conclusion**
29. A strong and vibrant charitable sector is a vital part of civil society. The charitable sector in England and Wales has an income of over £70 billion and holds charitable assets of more than £150 billion, all overseen by just under a million trustees – almost all volunteers. Good trusteeship and governance, and accountability for the management of charity funds and assets, are therefore crucial to the effectiveness of charities and the sustainability of the sector going forward. We welcome the Committee’s scrutiny of current efforts to improve the quality of trusteeship, governance and accountability of charities and further recommendations, to the Commission and to others for improvement.

5 September 2016
Dear Jill,

Evidence session of the Select Committee on Charities

I hope that you and the Committee found the evidence session useful last week.

During the session, Sarah and I were asked to provide a number of additional pieces of written evidence to the Committee, which I have set out below.

Firstly, the Committee asked about the increase in the number of registrations of charities. I can confirm the number of applications for registration as a charity has been rising for three years, and in 2015-16 was up 14% on the previous year. Largely this can be attributed to the increase in the number of registration applications for charitable incorporated organisations, up 29% to 2,911 (2014-15: 2,248). Despite this substantial increase, we sped up the registration process, with average registration timeframes down from 62 days in March 2015 to 58 days for the full financial year in March 2016. We believe that our new online application portal will help drive further efficiencies for the Commission and our customers. This was launched in March 2016.

The Committee asked whether the Commission bars those who have had their licence to trade and operate in financial positions removed by the Financial Conduct Authority (FCA) from being a trustee of a charity. The Charity (Protection and Social Investment) Act 2016 gives the Commission a number of new powers. One of these enables the Commission to disqualify individuals from acting as trustees when certain conditions are met – this also disqualifies the same individual from senior management positions in charities.

In essence, three tests have to be met in order for the Commission to use this power. Under the first of these tests, one of six conditions as set out in the legislation, must apply. An example under one of these conditions provided in the Commission’s policy paper is a
“finding of misconduct by a professional body or regulator”. The Commission is currently consulting on the use of this power. Following this consultation, and when the relevant commencement order has been made, the removal of a licence to trade by FCA would become a consideration with regards to disqualifying an individual as a trustee. This would be on a discretionary basis; it would not happen automatically. The Act does change the automatic disqualification provisions but largely this is through widening the range of criminal offences that result in automatic disqualification.

The Committee asked about the conflict of interest between company directors who are also trustees of charities which are set up by the company in question and how the Commission ensures separation between the different interests. Trustees must at all times act only in the best interests of their charity. In 2014 the Commission published updated Guidance on Conflicts of Interest; this guidance further makes that point. The guidance provides detailed information for trustees outlining how they can identify conflicts of interest and how to prevent conflicts of interest from affecting decision making. There are further requirements in the Charities Statement of Recommended Practice (SORP) regarding the declaration of related party transactions and the SORP requires any charity which is itself a subsidiary to provide information about its ‘parent’. The SORP sets out the accounting and reporting requirements for those charities preparing their accounts on a ‘true and fair’ basis and its requirements include disclosing the reporting charity’s interests in associate entities, joint venture entities and consortia arrangements. The Commission has also published detailed guidance on its website, Trustees trading and tax: how charities may lawfully trade, that provides information for trustees regarding trading subsidiaries.

The Committee asked about the structure and governance arrangements of the Charity Commission and the relationship between the Chair and Chief Executive. The Commission undertook an independent review of its governance and board effectiveness in 2015 and updated its governance framework to reflect the recommendations of that review. The review concluded that under the 2006 and 2011 Acts, the Commission’s board differs from the boards of most comparable public bodies, which typically contain both executive and non-executive members. The board decides which functions to reserve to itself and which to delegate to the chief executive and staff. The report also recognises the accounting officer’s personal responsibility for stewardship of the Commission’s resources.

During the hearing, we briefly discussed the Commission’s three-year strategy. There are two key planks to our strategy plan 2015-18; the first is carrying out our compliance duties and the second is about enabling the sector. It is fair to say that the priority in the first year has been on that of compliance, and ensuring operational effectiveness in this area. Given our limited resources, the Board determined that the best way of carrying out our statutory
The duty of enhancing public trust and confidence in the sector was to be seen to be a firm and fair regulator.

However, as the Commission moves into the second year, we are putting more focus on the enablement strand. First, this involves providing clear, accessible, focussed regulatory guidance. Secondly making it easier and more efficient for trustees to work with us, when they need permissions or other assistance, through better, more user-friendly digital services. Thirdly, we aim to maximise our collaboration with third parties, such as charity funders, professional advisers and umbrella bodies to help improve trustee effectiveness. The board and the executive have discussed enablement in quite some detail and we hope to communicate this further with the sector as the year progresses.

Lastly I thought it might also be useful to expand on what the Committee could recommend to help ensure the sustainability of the charity sector. As we said (and this was echoed by the sector bodies you saw) improving the quality of trusteeship is the key area we trust the Committee will investigate further. Inadequate governance and a lack of strength or diversity in trustee bodies lie at the root of much of our compliance casework.

However we also recognise that in raising expectations of trusteeship, more work must be done to support trustees. As such, it is important to look at the effectiveness of the current rules of the governance model, how we support trustees’ development and the pipeline of supply of potential trustees. We would be happy to contribute further on these issues as the Committee deems appropriate.

The Commission is working with the Cass Business School Centre for Charity Effectiveness and the Cranfield Trust to conduct a major piece of research in 2016 into trustee awareness and capability, to examine the current standards and to identify priority areas for improvement. The survey will test awareness of the duties in the Essential Trustee and other Commission guidance. I would be happy to share the early findings of that research with you later in the year.

I understand that the Clerks have been in contact with my office about the possibility of an onsite visit. I would like to reiterate this invitation to the Committee and very much look forward to the opportunity to further show the work being done by the Commission.
I hope that you find this information useful in conducting your inquiry; should you need any further information then please do not hesitate to get in touch.

Yours sincerely,

Paula Sussex
Chief Executive

08 August 2016
Date: 8 November 2016

Dear Jill,

**Charity Commission visit**

I hope that you and the Committee found the visit to the Charity Commission useful last week.

During the visit, the Committee asked for a couple of additional points of clarification, which I have set out below. I have also enclosed a copy of the slides which we presented to the Committee, please note that the two slides from the *Tackling, Abuse and Mismanagement Report* have yet to be published so it would be appreciated if members kept them confidential.

Firstly, Lord Bichard asked a question about how the Commission measures impact. As explained in the meeting we publish a number of publications annually such as our *Annual Report and Accounts* and the *Tackling, Abuse and Mismanagement Report* which can be accessed on our website.

In addition, we have a number of internal measures which help to provide us with a clearer picture. I thought it would be useful to include a sample of our monthly Key Performance Indicators (KPIs) from our latest corporate dashboard (September 2016) which shows a number of indicators we measure. This dashboard is reviewed every two months by the Commission’s Board and every three months by the Audit and Risk Committee.

Secondly, Lord Bichard asked if there was any work being done by the Commission to address the backlog of registrations which is mentioned in the NAO report *Follow-up on the Charity Commission* published in January 2015. I thought it is worth clarifying that every application we currently receive has been assessed and progressed at this time. Some cases which were not assessed as suitable for immediate registration are awaiting allocation to a case officer, but that does not constitute a backlog as it is simply sensible management of the through-flow of work. That is a big improvement on where we have been historically.

The increase in the number of applications, without any mechanism for dealing with them more efficiently meant that the number of open cases increased consistently for a period and peaked at 1,989 in March 2016. However, in the following month we launched the new online application system “Apply to Register a Charity” (ARC), and, since that date, the number of cases open has reduced consistently – standing at 1,381 at 31 October 2016.

In addition, we sped up the registration process, with average registration timeframes down from 62 days in March 2015 to 58 days for the full financial year. Our current overall average registration timeframes for work is currently 48 working days against our KPI target.
of 55 days. As this is an average, the length of time it takes to register an organisation will often depend on the individual application. The fastest applications will be, for example, if a registration applicant is using one of our model (approved) governing documents, provides full and complete information, and we can clearly see that the public benefit and charitable status tests are met, we can register the organisation quickly.

Lastly, during the session on enablement, Sarah Atkinson, Director of Policy and Communications, mentioned the model for non-executive governance and skills support in higher education and the role of the Leadership Foundation for Higher Education, with whom we are in contact. The Foundation was founded by the regulator (HEFCE) and two main sector bodies (UUK and GuildHE) but is independent from them. They offer a range of support and training including providing online guides, training and self-assessment as well as training courses and events, research and consultancy. The Committee might wish to explore the model for supporting governance and leadership provided by the Foundation.

I hope that you find this information useful in conducting your inquiry; should you need any further information then please do not hesitate to get in touch.

Yours sincerely,

Paula Sussex

Chief Executive

8 November 2016
Dear Chair,

Evidence session of the Select Committee on Charities

I hope that you and the Committee found the evidence session useful earlier this month.

During the session, Kenneth and I were asked to provide a number of additional pieces of written evidence to the Committee, which I have set out here:

Lord Lupton asked about the total tax relief charities receive from the Government. This information is held by HMRC; however, I understand the figure to be £3.67 billion for the 2015/16 financial year.\(^{101}\)

Lord Rooker mentioned he could not find the names of the Commission’s senior civil servants on our website. I can confirm that we provide biographies of all our Board members and senior staff, which are accessible on the Commission’s home page.

I would like to address Lord Foulkes’ question during the evidence session and his further comments in the House of Lords last week, which I found surprising and disappointing as these seem to me to have gone beyond legitimate scrutiny into personal criticism.

Since becoming Chairman of the Commission, I have actively encouraged diversity on the Board and among staff, as has my Chief Executive, Paula Sussex. For example, we monitor our workforce against diversity targets covering ethnicity, gender, disability, sexual orientation, age, religion and belief. We are pleased to note that our BME profiles have increased from 4% in 2013/14 to 7% in 2015/16. In addition, we have increased the percentage of women and disabled staff within the organisation, including excellent gender balance at the most senior levels.

As for the Board, I explained we previously had two BME members on the Board; both left largely due to the pressures of other work. When appointing replacements, we advertised for three new members - one with security and counterterrorism experience, one with digital expertise and one with charity experience. The diversity of applications for the posts was disappointing. All candidates were considered very carefully against the skill set required, regardless of their ethnicity.

With regards to the age of the new board members, I can confirm that all three are aged between 56-65 years old. Two of the three are female.

I completely refute Lord Foulkes’ personal accusations against me. I have worked for four years to improve the Commission's transparency and reputation as a regulator and thus to serve the charity sector better. I knew none of the three new board members before they entered the appointments process, which was overseen by the Office of the Commissioner for Public Appointments in the normal way.

The issue of achieving greater diversity on Boards is not limited to the Commission or to the charity sector. This is an issue across the whole of Government, within Parliament and wider society. I will encourage my successor to continue to encourage greater diversity on the Board and within the Commission, alongside achieving the right skill set and experience profile.

Yours sincerely,

William Shawcross

Chairman

20 December 2016
About the Charity Evaluation Working Group

1. The ChEW group is an informal networking group designed for those working in impact measurement and evaluation in the third sector to share knowledge, ideas and experience and to network. There are currently over 100 members, representing small, medium and large charities based across the UK.

2. Included among our aims are:
   a. To share evaluation expertise and receive/provide feedback on the planning, development, commissioning, methodology, on-going management and findings of evaluations.
   b. Gain insights on how best to utilise evaluations to effectively demonstrate impact and drive performance improvement across interventions.
   c. To discuss key challenges currently facing evaluation leads within the charity field in a confidential space and to provide a community of evaluation practice.
   d. To be a ‘force for change’ within the evaluation field - to work towards influencing all sectors to drive forward best practice approaches to evaluation.

Response to the call for evidence

Governance and leadership

Question 4. What skills are required to lead and manage a charity? - How can these skills be gained? - What support exists to develop these skills within the charitable sector?

3. Charities need to get better at measuring their impact and being led by the evidence generated in order to improve their work; be more effective for their beneficiaries; and instil the trust and confidence of funders [1]. However, in a 2012 survey, almost 25% of charities said they do not measure impact at all, and this was higher among smaller charities. After funding and resources, it is the lack of skills and knowledge that was identified as a key barrier [2].

4. As the evaluation leads working in charities across the UK, we are committed to promoting high quality evaluation practices within our organisations. There is also a lot of good work happening within the sector to drive improvement in the skills and knowledge about evaluation practice. ‘Inspiring Impact’ is a cross-sector programme (supported with funding from the Cabinet Office) aiming to change the way the UK voluntary sector thinks about impact [3]. The programme is delivering a number of

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activity streams in order to support and improve impact practice in UK charities and social enterprises. However, there is a lot of ground to make up in this area.

5. Within ChEW, we have identified the skills and competencies we believe are required of the individuals driving evaluation and impact measurement in their organisations. This includes having technical skills to deliver and manage evaluation; people skills to engage, persuade and inform, and personal qualities and characteristics to drive quality and consistency, including attention to detail, honesty, independence and a desire to learn. The biggest skills gaps we identified relate to technical skills in research and evaluation, specifically relating to complex evaluation design [4]. Yet these are the skills most needed if charities are going to deliver the highest standards of evidence expected by social policy decision makers [5][6][7].

6. Initiatives such as the ‘What Works Centres’ [8] and ‘Inspiring Impact’ are excellent examples of the Government’s leadership on this issue. The Government should continue to show leadership through policies that provide the infrastructure for impact measurement and support charities to improve their practices. Alongside this, we would like to see more support for skills development in the sector, for example by supporting knowledge exchange partnerships or training for charity leaders. Staff should also be supported by their organisations to attend groups (such as the Charity Evaluation Working Group) that provide opportunities to share knowledge and best practice with peers across the sector. Charities often lack funding for training and professional development of their staff, yet this is critical if we are going to improve the impact practices in charities and social enterprises.

Question 5. What role should trustees play in the performance and effectiveness of a charity? - How can trustees be best equipped, enabled and supported to fulfil their responsibilities? - What, if any, changes might this mean for current arrangements?

7. Trustees have an important role to play for championing evaluation and impact measurement within their organisations. The Code of Good Impact Practice, established as part of the Inspiring Impact programme, recommends that everyone in an organisation takes some responsibility for impact [9]. Therefore, support for evaluation and impact assessment should be both top-down and bottom-up.

8. Trustees need to be committed to being evidence-led in their decision making. Evaluation personnel need the support of senior champions in order to navigate difficult areas, such as what to do if projects and programmes are shown not to be effective through evaluation findings, and in getting traction when collecting
evidence. Therefore the resources, training and guidance provided to charity managers and leaders should be available to Trustees.

**Accountability**

**Question 6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

- What, if any, changes might this mean for current arrangements?
- How should charities assess their long term viability and/or sustainability?

9. Charities that evaluate what they do and learn from the results can be accountable to their beneficiaries, donors and the general public. However, it is challenging for charities to embed good impact practice into their work, or report honestly on negative results. A lot of these challenges are reinforced by short-term funding arrangements, conflicting needs from different funders, and the expectations to report on the impact of a specific programme rather than considering the role of the intervention within a wider context.

10. While we believe that charities need to improve their impact measurement in order to be properly accountable, we believe that the expectations for charities to report on the impact of specific funded or commissioned programmes should be proportionate, realistic and feasible. Indeed, some contracts or grants that provide short-term funding should not include expectations for impact reporting: impact will only be seen much later, perhaps well after the funding has ceased; it requires sophisticated (and expensive) evaluation methodologies to be measured well, and is likely to involved a number of different agencies and interventions.

11. While the standards of evidence promoted by the likes of Nesta and the Social Research Unit provide helpful guidance, not all charities can, or should, be collecting evidence at the more advanced scale. Charities need to consider the resources they have available, the purpose for which the evidence is being collected and the evidence gap they are seeking to fill. Charities that are delivering evidence-based programmes should be encouraged to focus more on evaluating the quality of delivery, and be encouraged to learn from negative results as well as promoting success.

**The role of the Government**

**Question 9. What should the role of Government be with the sector?**

12. Embedding good impact practice across the charity sector requires leadership from staff and trustees as well as cross-sector collaboration. This can be facilitated by
national policies and initiatives and should be enabled by local Government funders and commissioners.

13. There also needs to be efforts to educate and inform MPs and members of the public about the work of charities and the use of good evidence. While the ‘What Works Centres’ seek to provide robust evidence to inform decision-making, the reality of how MPs and members of the public are persuaded about social policy programmes is different: Research by Ipsos MORI found that MPs put their principles ahead of evidence from controlled trials when making social policy decisions [10] and public opinion is heavily influenced by memorable anecdotes and often based on misperceptions which run counter to evidence [11]. The negative press received by charities surrounding issues, such as the collapse of Kids Company and executive pay, relate to the minority of charities in the UK and do little to encourage charities to talk about their mistakes or report negative results – when often, this is how charities can improve, learn and grow.

Conclusion

14. Supporting charities to improve their practices around impact measurement and evaluation is crucial to driving improvement and ensuring sustainability. While there is a lot of good work being done in the sector to improve the quality and consistency of impact measurement and evaluation, the key areas we would like to see more work on are:

- An investment in skills development and training
- Funding and commissioning arrangements that can facilitate improved evaluation practice
- Charities being encouraged to share negative results.

[10] Ipsos MORI (2015) Are MPs open to experimenting? Findings from the winter 2014 MPs survey. Ipsos MORI Social Research Unit
4 September 2016
About CFG

Charity Finance Group (CFG) was founded in 1987. It is the charity that works to improve the financial leadership of charities, promote best practice, inspire change and help organisations to make the most out of their money so they can deliver the biggest possible impact for beneficiaries. CFG has nearly 1,400 members and our members manage nearly £21 billion in charitable income. Our members work at the heart of the strategic development of their organisations, and are at the forefront of delivering a sustainable and efficient charity sector.

This written evidence supplements oral evidence given on behalf of CFG by the organisation’s Head of Policy and Engagement, Andrew O’Brien, on 12 July 2016 [Evidence Session No.3].

Executive summary
Charities are facing a difficult financial environment, driven by unprecedented pressure on their income and demand for services. This has been driven by falls in government income, with charities in a race to replace this income with growth in other sources (most importantly, income from individuals). This pressure hasn’t been evenly shared, with small charities suffering more than the largest.

All this has led to a ‘capacity crunch’ in the sector, with charities cutting back on their own development and governance in order to fund frontline services. This has meant that many charities do not have the skills and support that they need in order to govern and financially manage their charities. There is a need for more flexible forms of funding such as grants, particularly from government, to ensure that charities can resource the own governance and development sufficiently.

Long standing issues around reporting have meant that governance and support costs, such as management, are seen as ‘bad’ costs compared to charitable expenditure. Steps need to be taken to change this. Moreover, the Charity Commission needs to change perceptions around charity regulation so that the public has greater confidence in the existing regulatory regime, giving the public confidence that their money is being spent wisely.

The government can do a number of things to help: increase funding for the Charity Commission, recognise and the value of grants, implement full-cost recovery and improve the tax environment for charities to free up additional resources.

Pressures and opportunities
Charities are facing unprecedented pressure on their operations due to increased demand for their services and squeezes on their funding. Our regular Managing in the... series of surveys with PwC and Institute of Fundraising, has found increasing numbers of charities
reporting increasing demand. In our 2016 survey, 70% of charity respondents said that they expected demand for their services to increase over the next 12 months. This compares to 38% in 2008, when we first asked the question. Worryingly, 25% of charity respondents said that they did not have the resources to meet demand for their services. Moreover, 54% of charities reported that they could not increase their reserves, even if they wanted to do so. Although the number reporting that they did not have the resource to meet demand had fallen slightly from the previous year, this is indicative of the pressures facing a significant number of organisations.

This increase in demand comes at a time when sources of income are coming under pressure and costs are continuing to increase. Charities are effectively in a race in which they are seeking to generate new resources through fundraising and charging for services, quicker than government can cut back on grants and contracts which have traditionally supported many of their activities.

The biggest source of income for the sector is from individuals. The second biggest source of income is from government. The sector’s overall financial health depends primarily on these two sources of income. Income from individuals includes income from donations, fundraising events, legacies and paying for services provided by charities. Between 2009/10 and 2013/14, income from individuals grew by £1.6bn in real terms, but at the same time income from government fell by £700m in real terms. Without a £1.1bn spike in income from individuals in 2013/14 (the cause of which is unknown), the charity’s sector would have seen a net loss of £200m in its two biggest income sources.

A recent financial sustainability review into the voluntary sector predicted that unless the charity sector was able to grow its income from individuals at a rate of 3.85% a year, to offset government cuts and inflation, then the sector would end up with a ‘black hole’ of £4.6bn in its finances between what it spends today and what it would have in income by 2020. Fortunately, government cuts have slowed in pace and inflation has been lower than expected. However, the overall financial position of the sector is precarious and unless the 2013/14 spike in individual income becomes a trend, a significant ‘black hole’ in the sector’s finances is likely to be present by 2020.

Furthermore, this has to be seen in the context of increased fundraising regulation. Charities have increasingly had to fundraise in order to offset cuts in government income, which may explain public concerns about the amount of fundraising ‘asks’ that they receive over recent years. Most organisations believe that the new fundraising regulations are likely to reduce potential fundraising income, with some experts believing that it could cost as much as £2bn by the end of the decade. This could further add to the financial challenges facing the charity sector over the medium term.

103 https://data.ncvo.org.uk/a/almanac16/income-from-individuals/
105 http://www.cfg.org.uk/resources/Publications/~/media/Files/Resources/EOB%20July%202016.pdf
But financial pressures have also not been shared evenly. Small and medium sized charities (those with income under £1m) have seen local and central government fall by 44% between 2008/09 and 2012/13. Although small and medium sized charities have tried to generate other forms of income from individuals, this only rose by 21% over the same period. This has resulted in an overall shortfall of between 5-15% for charities earning under £1m.106 By contrast, the largest organisations have seen their income increase significantly over the same period, growing by 14%.

**Governance and Leadership**

This challenging financial environment has put even more pressure on the governance and leadership within charities. As the leading charity body for improving financial management, CFG is well placed to see this. Charity trustees have had to improve their financial skills and understanding of their organisations in order to navigate change, and charity executive boards have had to make difficult decisions to balance the needs of current beneficiaries with those of future beneficiaries. Whilst some organisations may already have the skills that they need, for most organisations, more investment is required to bring them up to the required level.

There is demand for improving financial governance and leadership in the sector. Charity Finance Group has noticed an increase in the number of attendees to its events on financial issues facing the sector of 31% over the period between 2010/11 and 2015/16 – highlighting the increasing importance of financial management within charities and appetite for skills development.

The skill sets required on charity boards has become more complex, as charities have had to deal with an increasingly complex operating environment. This is not only financial, but regulatory. There have been significant changes in fundraising regulation, financial regulation (for example, in setting reserves policies) and increased expectations in terms of governance from the Charity Commission. This has had a particularly negative impact on small charities, with the Small Charities Coalition noting the need for regulation to be ‘simple, proportional and supportive’ in the future.

However, the financial situation has led to a ‘capacity crunch’ within the sector as charities report cutting back on investing in their own organisations in order to prioritise resources on the frontline service delivery.107 This is worrying as the increased complexity of charities’ operating environment means that more investment, not less, is required to make sure that charities are able to manage themselves effectively. Spending on governance has fallen by £121m between its peak in 2010/11 and 2013/14 (approximately 10%) which gives an indication of the financial pressures on the sector.

In part this can be rectified by a cultural change within the sector, with charities needing to

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become more comfortable with investing in their own capacity and recognising the value and importance of governance and leadership. However, there is also a need for funders to recognise the importance of governance and leadership. Government can take responsibility by embracing ‘full cost recovery’ across all its funding relationships with the sector. Far too often, charities report having ‘core costs’ (including management and governance) removed from funding bids because local and central government commissioners are not prepared to pay. This is understandable due to their own funding pressures but is short-sighted and leads to weaker organisations, building up more risk for the public sector that charity providers may fail. CFG’s financial benchmarking product, Finance Count, for example found that for the bottom quartile of charities, the median loss (total income minus total costs) on public sector contracts was 16.9%. For the largest charities, with an income over £50m, the median income from public sector contracts was -11%. This reduces the ability of charities to invest in governance and leadership.

Moving away from contracts towards grant funding would make it easier for charities to support improvements in governance and leadership. CFG is supporting a cross-sector campaigning, Grants for Good, which is trying to re-educate government about the value of more flexible funding relationships through grants. The amount of grant funding has fallen considerably over the last ten years, from £6bn at its peak in 2003/04 to £2.8bn by 2013/14. Grants for Good predict that if these long term trends continue, by the start of the 2020s there may be no public sector grants at all. This would mean charities delivering services through public funding would be more dependent on ‘restrictive’ contracts which, as referenced above, do not provide the financial flexibility to support governance and leadership development.

**Accountability and the Charity Commission**

Investing in governance and leadership has also been made more difficult due to the structure of charity reporting. The current Charities Statement of Recommended Practices (Charities SORP) asks for charities to separate out “support costs” including governance costs, finance functions, accounting, budgeting, personnel and information technology from the rest of charitable expenditure. Although this is done with the intention of giving a clear picture of charitable spending, it creates the impression that there is a ‘good part’ of spending (charitable activities) and a ‘bad part’ of spending (support costs). This breeds a misconception about the value of these services.

It also means that charities which rely heavily on public donations, as unlikely to spend on governance or leadership for fear of getting a bad reputation.

Without good governance, strong financial controls, effective budgeting and reporting and management of personnel, a charity cannot function effectively. These are not ‘optional’ or ‘waste’ but are essential for a properly managed charity.

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109 [https://www.dsc.org.uk/grantsforgood/](https://www.dsc.org.uk/grantsforgood/)
Accountability in the sector, as well as governance and leadership within charities, would be improved through moving the focus away from simplistic numbers or ratios (such as fundraising ratios or governance costs), which are often misunderstood\(^\text{110}\), towards a better partnering of narrative reporting and financial information. Charities should be encouraged to become better at telling their story - explaining their strategies and the impact that they have made, as well as the financial information that they report through their annual accounts. This requires support from the Charity Commission and government in their communications with the public.

There is also a broader issue regarding the role of the Charity Commission. CFG’s commissioned independent research by the University of Kent on public perceptions of charity regulation found that the public did not understand how, and to what extent, charities were regulated.\(^\text{111}\) This is worrying, as people identify a strong regulatory system as important for their confidence in the governance of charities. As others, such as the Association of Charitable Foundations, have argued the Charity Commission has drifted too far away from its role to promote public trust and confidence in charities towards core ‘policing functions’.

Whilst this has, in some quarters, improved perceptions about the effectiveness of the Charity Commission, it has led to an unbalanced view of charity regulation. Charity regulation is only promoted when charities are perceived to have done something wrong, and the overall regulatory structure is little known. Improving public understanding requires a change in tone by the Charity Commission but also investment in public engagement (including advertising) to reach out to the public so that individuals understand how charities are regulated.

**The role of government**

Given all the challenges referenced in this submission, government has an important strategic role to play. It can do this in four ways:

- **Increasing funding of the Charity Commission** – the Charity Commission’s budget has been cut by over 50% in real terms since the start of the decade. This has meant that resources to support governance and leadership in charities, whether through guidance or helplines, has had to be cut back. This is not sustainable and merely stores up problems for the future. The government should restore the Charity Commission’s budget to historic levels (2009/10) so that it is able to carry out its functions effectively and support good governance in charities.

- **Recognising the importance of grant funding** – the shift from grants to contracts, has significantly impacted the financial resilience and governance of charities. The government should work with cross-sectoral campaigns, such as ‘Grants for Good’ to re-educate commissioners about the value and appropriate use of grants. This will better enable charities to invest in their own governance and leadership development. The government should also lay out a ‘Statement of Expectations on

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Grant Making’ for local authorities, to ensure that standards in grant making are improved across local government.

- **Full-cost recovery** – as noted above, many charities are facing a ‘capacity crunch’ with funders not prepared to pay for governance and management costs within charities. This is damaging the sector and the government should take the lead by ensuring that all contracts and grants fund the full costs of delivering services, including governance and management within the charity.

- **A supportive tax environment** – one way that the government can free up resources to support governance and leadership in the sector would be to improve the tax environment for charities. Irrecoverable VAT (tax which charities cannot recover due to various special exempts and zero ratings that it receives) costs charities over £1bn a year. Reforming this, particularly post-Brexit, would free up significant resources for charities which could be invested in governance and organisational development. Similarly, increasing business rate relief from 80% to 100% for charities would free up hundreds of millions of pounds for charities and ensure that more investment can be put into ‘core costs’ such as governance and leadership.

*5 September 2016*
About the organisation

1. Charity Futures is a new initiative led by Sir Stephen Bubb which aspires to bolster the quality of leadership and governance in the charity sector, and to reinforce relationships between donors, the public, and voluntary organisations. Sir Stephen Bubb was chief executive of ACEVO, the representative body for charity leaders, for 15 years. He was also chair of the board of the Social Investment Business for 10 years, and is a trustee of Helen and Douglas House Hospice, the world’s first children’s hospice.

2. Stephen’s recent national roles have included reporting on choice and competition in the NHS for the Prime Minister in 2011, and writing a major report for Government in 2014, ‘Winterbourne View – time for action’, which called for radical reform in the way we care for people with learning disabilities. He is supported by a small research and program team.

3. The Charity Futures program has, since its creation in July 2016, been seeking to gather as wide a range of opinions and insights into the challenges the charity sector faces as possible. With this in mind it has conducted a number of roundtable consultations and events, in addition to the record meetings with some of the largest charities chief executives and chairs. The program is not intended to be a quick fix, and nobody wants to rush in with initiatives or interventions which are not fully thought out: for this reason, evidence submitted to the committee is in the form of brief intermediate conclusions.

Governance support

4. Together with Third Sector and nfpSynergy we have run an online national survey of trustees. The findings show that it is difficult to recruit and retain trustees, and that over a quarter feel the pressures of their role too much. There seems to be a feeling of growing pressure in the wake of the Kids Company scandal. The Charity Commission has made a move to emphasise regulation and downgrade support, so they are ramping up the message on responsibilities, but their former support service role has not been replaced. Indeed, the way the commission’s stances are reported helps to foster a climate of anxiety and compliance, where the regulator could be seen as a helpful backstop and guide.

5. Our survey evidence found significant appetite for more support, including training, online resources, and a national body representing trustees. Of course there can be seen to be a tension if a regulator is also seeking to be supporter and guide: as one observer put it, “you cannot be the referee and the coach at the same time”. That may at least limit the Commission’s scope for the “coach” role, since it cannot escape being referee. It follows that other organisations will need to step into the breach to keep the sector as healthy as it is now, let alone to boost its impact.

Scope of the issues

112 Reported here: http://www.thirdsector.co.uk/trustees-pressure/governance/article/1413469 and here: https://nfpsynergy.net/blog/twenty-things-we-learned-our-national-trustee-survey
Full data available on request.
6. There is a tendency to think rather too narrowly about the big issues in our sector, for example thinking that governance is simply about trustees and boards and not also the executive side; also, failing to recognise that it is as much to do with values and cultures as with process and controls – it is about how organisations broadly are governed. A proper understanding of the term “governance” should consider how the trustees and executives work together and, especially, the key relationship between board Chair and Chief Executive. This wider appreciation of the term “governance” is normally accepted in discussion, but not in literature around charity leadership.

Structure and process

7. There can be too much focus, even obsession, on the minutiae of a board’s formal structure and processes – governance is not just about this, but about the atmosphere and culture of a charity, the drive of its personnel. While these both deserve thought, they should not be viewed as the be all and end all: a charity can have antiquated or chaotic formal structures in place but still operate very effectively if the relationship between the chair and the chief executive is good, and the staff and trustees are motivated by the right attitude. Likewise, charities with processes that look picture perfect on paper can easily fall into difficulties. A blinkered approach only to board structure is even a risk, as it could start driving out the spirit which (alongside professionalism) should be the hallmark of the sector.

Nature of support

8. There has been a sustained failure among philanthropists and funders to properly invest in core costs and back office. It can be too tempting to attach results indicators to funding, or to only support specific initiatives or projects, which misses the point that for ambitious individual projects to succeed, the groundwork must be in place. In my recent consultations and research I’ve seen a serious gap in leadership and governance investment, whether in grants, contracts or philanthropic donations – this must be addressed.

Scope of ambition

9. Our sector faces a significant challenge and that demands joined-up and big thinking. Marginal improvements and small scale initiatives on their own will not be enough and would need to be set in this bigger context.
10. Because the sector is often content to think of small-scale interventions, pilot initiatives, test cases, an unambitious attitude seeps into how foundations and philanthropists fund capacity. Excellent back room support and an effective board remain absolutely crucial to frontline delivery and while this is often agreed as a principal at meetings and in the sector press, there has been no corresponding drive for improvement.

One size does not fit all

11. There is a vast difference between small charity with no paid employees, and the national charity with a turnover in the millions. There will always be a debate as to where a line should be drawn between small volunteering organisations, and those larger bodies that provide vital services or campaign work for thousands of beneficiaries - this debate
does not mean a line should not be drawn at all. Our sector should seriously consider whether the larger charities needs to be treated and conceived of differently to promote their passion and professionalism, to signal to the public and to donors that they are as committed and qualified to fulfil their roles as we in the sector know them to be.

12. There must be bolder thinking in line with this reality. For large and very large charities, we must resist the traditionalism which shies away from seriously engaging with the possibilities of learning from the private and public sectors. It should not be shocking to suggest a charity examines the flexibility to pay its chair or trustees. Nor should we avoid discussion of introducing unitary boards where appropriate, giving formal acknowledgement to the strategic roles of senior executives.

10 November 2016
1. What is the role and purpose of charities in civic society in England and Wales?
1.1 It is important to remember when asking such questions that there is no single, homogenous ‘charitable sector’ and that a ‘one size fits all’ approach to both support and regulation in the sector will not help to sustain it (e.g. this explains the different reporting requirements that exist in the Charities Statement of Recognised Practice (SORP)). Smaller local charities need support and guidance, which might be lacking as a consequence of cutbacks at the Charity Commission. They also need ‘light-touch regulation’. Larger charities that engage in complex contracting arrangements might need more intensive regulatory oversight, not least because they are handling large amounts of taxpayers’ money.

1.2 In light of the significant diversity in the sector, it is also essential to exercise extreme caution in considering any potential changes to its legal and regulatory regime – especially where one of the driving forces for such consideration taking place may be a period of high-profile, negative media scrutiny of the sector.

- How has this changed?
1.3 Many charities have moved away from having a primary role of filling gaps in public sector (and other) provision towards becoming primary providers of services (e.g. in housing, in advice or in specialised local services) under contract with local government. There is concern that this linkage with direct provision of services, which can lead to a lack of independence (see para 1.9 below), is also harming the ability of charities to challenge changes in service provision or draw attention to the deficiencies of such services.

- What makes them distinct from other organisations doing similar work?
1.4 Charities’ distinctiveness stems from their core value of voluntarism and from their unique legal status and structures. These are based on specific legal requirements with regard to their focus and activities: they must provide public (not private) benefit as defined by law; they must be exclusively charitable; and they must fulfil their stated charitable purposes. All three requirements can cause problems, particularly as trust is the ‘voluntary sector currency’, and the drive to ‘do good’ can unseat legal duties. Their unique legal status also brings an additional layer of regulation, and charities that provide services under contract must therefore comply with the distinct regulatory regimes placed both on specific service providers (e.g. as care home providers under the Health and Social Care Act 2008) and on charities.
What role can charities play in community cohesion and civic action?
1.5 Charities can play a central role in community cohesion and civic action, as both small local charities and many national charities operating at a local level are integrated into and are trusted by their beneficiaries at a community level – they therefore have a deep knowledge of specific local issues.

How does the sector benefit from volunteering?
1.6 Charities and their beneficiaries benefit hugely from volunteering and annual surveys show that the sector would not survive without them – in terms of both the huge armies of volunteer trustees who govern charities and the hands-on volunteers who carry out their work.

How has the status of volunteers changed?
1.7 In many charities, the status of volunteers has become more akin to that of employees, both in terms of skill-levels associated with tasks completed by volunteers and in terms of volunteers’ rights and expectations (e.g., in terms of training).116 This is partly due to the fact that many charities are now replacing the state as providers of specialised services. This is also likely to be linked to several social phenomena, including an expanding retired (but active) population available for volunteering,117 and the phenomenon of self-interested altruism in the millennial generation as intense competition in the employment market triggers a need for young people to make their CVs distinctive through voluntary activity prior to seeking paid employment.118

What challenges do charities face in trying to fulfil their role in civic society?
1.8 When trying to fulfil their role in supporting the many beneficiaries who rely upon them, charities face significant challenges to their independence.119 However, it is vital that this is retained, for several reasons: it is a legal requirement (trustees must act solely in best interests of charity and beneficiaries); it is vital for democratic society (emerging democracies in Europe and elsewhere point to England and Wales and have sought to foster an independent civil society as a key hallmark of their own democratisation process); and it enhances public trust and confidence in charities (which underpins donations of money and time – essential for the very survival of charities).
1.9 The most obvious challenge to the independence of charities is that, as many charities become more entwined with state provision of services under contract with national and local government,120 their advocacy role comes under threat. Further, where a charity becomes the sole provider (or one of only a few large providers) of particular services, beneficiary advocacy eventually becomes self-criticism and becomes difficult to maintain. This undermines the unique strengths and distinctiveness of these charities; they are no longer trying to solve problems with state provision, but are themselves becoming organs of the state.

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118 In this regard, we have seen a change in attitude in recent years in University law students that we teach.
119 As comprehensively explored by The Panel on the Independence of the Voluntary Sector over several years.
1.10 A related challenge is the fact that whilst maintaining independence is crucial in retaining trust and confidence in the charity sector, accountability of charities both to their direct funders and (where they provide public services) to the state and to the taxpayer is also vital. Independence and accountability are not always easy to balance. The legal framework governing charities should ensure this, but law and practice do not always coincide. Some trustees are either insufficiently aware or insufficiently capable of meeting their legal obligations, and this can have a dramatic and detrimental impact on the charity for which they are legally responsible.

1.11 The challenge presented by the balancing act between independence and accountability can be compounded by a lack of awareness within the general public and the media of the constraints of charity law, which charities must comply with but which other NGOs need not take into account. There can be a conflict between the principle of voluntarism and the need to operate in an efficient, business-like manner, and charities that have to juggle these considerations may appear in a poor light in comparison to organisations that do not have the same constraints.

1.12 These challenges are further exacerbated by shrinking state provision of services and greater expectations being placed upon the charitable and voluntary sector, both to meet the increasing demand for services under contracts with reduced budgets and to provide for increasing levels of unmet need through their charitable funds. For example, local Citizens Advice agencies, which have long had an important civil society role in feeding up information about how social welfare changes are impacting society, are so overburdened with advice seekers that they do not have time for social policy or campaigning work.  

- How can these challenges be overcome?

1.13 Funding from the State should match the increasing levels of service provision that charities are expected to provide under contract.

1.14 Consolidation and rationalisation of the charitable sector is often raised as a solution to some of the challenges faced. However, no legal or policy remit exists that could force charities to consolidate. Even if such a remit existed, it would be in danger of undermining both the diversity of the sector and its mission-led, altruistic and voluntary value base. Instead, we recommend that charities of all shapes and sizes should be encouraged and reminded to always retain a focus on their specific charitable purposes and beneficiaries and to continually review and reflect on whether they are meeting the needs of those beneficiaries in the most efficient and innovative way possible. They should also be encouraged to make good use of the support provided by infrastructure bodies such as NCVO and local CVS organisations.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?

2.1 Financial pressures: There have been significant cuts to funding from the public sector (see para 1.12 above). Fundraising from the public has also become more difficult in a constrained economic environment over the last few years. The potential impacts of this for

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individual charities can include the inability to meet their operating costs (resulting in full closure or closure in specific locations) and mission drift resulting from homogenisation of services or reduction of service levels.¹²²

2.2 Media scrutiny and negative publicity: The recent swathe of negative news stories surrounding charities has the potential impact of reducing public trust and confidence in charities. This may disproportionately affect larger, national charities, but there is the potential for a generalised reduction of trust in the ability of the regulatory system to properly police charities. This may affect charities of all sizes. There is an additional concern that scrutiny of charities (particularly religious charities) may be linked to the high level of interest in terrorism displayed by some parts of the media, and that this could both inflict major reputational damage on charities and further inflame existing racial tensions within communities served by these charities.

2.3 Complex legal and regulatory burdens, in particular where multiple legal and regulatory regimes interact: It can be extremely difficult for charities to keep up with legal requirements as they develop and are interpreted. This can particularly affect those engaged in specific multi-agency working, e.g., those working in partnership with NHS bodies, but can also more broadly affect those working across sectors. There have been two striking recent examples of where charities have struggled to navigate the new legal landscape. First, the so-called Lobbying Act 2014 has been a minefield for charities in terms of the interaction between charity law and electoral law. The confusion created has had a chilling effect on charities’ campaigning voices.¹²³ Second, charities have been ill-equipped to address the complex legal questions generated by the Equality Act 2010. The Act tightened the exceptions that allow charities to target their services to particular sectors of the population, e.g. along gender lines.¹²⁴ Charities are unlikely to appreciate that non-compliance may mean that they are considered not to be acting in the public benefit, resulting in loss of charitable status.

2.4 Competition from social enterprises and commercial providers: A further consequence of the multiple layers of regulation under which charities must operate is that other types of organisation which do not have to comply with charity law and regulation may be able to operate more efficiently and with lower operating costs. This may exclude charities from service provision in areas where they have unique skills and knowledge, and may also increase scrutiny and criticism of their operations and levels of efficiency.

- What opportunities do charities have in the current environment?

2.5 Charities can capitalise on the current (widely reported) renewed and enhanced interest in voluntarism and altruism present in society. Whilst bodies such as social enterprises have taken advantage of this phenomenon, charities should consider how best to position themselves so as to benefit from this.

2.6 Some charities may view current pressures and challenges as an opportunity to rationalise and reinvigorate their operations, using a challenging environment as an opportunity to reflect on how well they are maintaining their independence and serving their beneficiaries.

¹²² See e.g. note 9 above.
- Are there specific pressures affecting particular types of charity that you can highlight?

2.7 The taxonomy of charities included in the question (and frequently used elsewhere), whilst useful for the purposes of describing charities’ current operations, can be constraining and can work against charities’ abilities to be dynamic and responsive. For example, ‘service delivery’ can (and should) only be the method that the charity is currently using to achieve its objects, and this should be reviewed as circumstances change. If charities ensure that they remain responsive in meeting their charitable missions, as outlined above (para 1.14), these labels may continually change.

2.8 As a corollary to this point, the language used to label charities in media and other coverage, such as ‘campaigning’ charities, can further serve to confuse and inappropriately label charities based on their chosen method of achieving their aims. Distinguishing ‘campaigning’ from ‘meeting the needs of beneficiaries’ – rather than viewing it as just one method of meeting those needs through tackling the root cause of a problem rather than just its symptoms – is a prime example of labelling which can confound clear understanding of a charity’s mission.

Innovation

3. How do charities seek to innovate, particularly in the digital arena? No particular comments.

- What more could be done to promote innovation, and by whom? No particular comments.

- What barriers are there to being innovative?

3.1 From a legal perspective, one notable barrier is that the legal environment does not always manage to keep pace with new ways of working. For example, the Gift Aid system has taken a long time to catch up with digital fundraising methods.

Governance and leadership

4. What skills are required to lead and manage a charity? No particular comments.

5. What role should trustees play in the performance and effectiveness of a charity?

5.1 Trustees should play a central role. They are critical in ensuring that charities function properly. In well-governed charities that provide public services under contract and which are run on a day-to-day basis by professional management, unpaid trustees might bring expertise from other walks of life (e.g. accounting, PR, management), equipping them to oversee and steer the professional management. They should engage with this task fully, in line with their legal responsibilities for the charity as explained in Charity Commission guidance. In other charities (often smaller, local organisations), the trustees are likely to provide the day-to-day management by themselves. Again, published Charity Commission guidance is important to this type of trustee. If they do a good job, many charity scandals will not occur. If they are also perceived as doing a good job, public trust and confidence in charities will improve.

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

5.2 It is important that trustees understand their legal obligations and are competent to carry them out. They must be helped to appreciate that trusteeship is a substantive position, even if it is not remunerated, and is not simply an honorary role whereby their name is seen as supporting the cause – if this is what a potential trustee envisages, they would be more suitable as a charity patron. However, there is a fine balance to be struck between the need
to appoint people who understand their legal obligations and the need not to deter suitable people from taking up the role. The key is appropriate induction and ongoing training and the dissemination of good practice examples. A lesson can be drawn from the practices used to appoint school governors – training is the norm, and public funding is available to support it. It is clear that charity trustees need more support in order to carry out their largely unremunerated role – many are crying out for such support. Continuing Professional Development (CPD) for trustees, linked to the size of the charity and the funds that the trustees are responsible for, may be worth exploring. It is also important that trustees are equipped to know when they should move on from the role.

- What, if any, changes might this mean for current arrangements?

5.3 Wider provision of insurance for trustees may help to encourage suitable people to take on the role. Payment for trustees could be a possibility, but this raises questions of whether voluntarism and professionalism can exist side by side. This is an ongoing debate, and there are no easy answers – but it may be time to take another look at this issue.

5.4 There is a key role here for sector umbrella bodies and other support groups, and wider provision of pro bono legal and other advice for charities, which takes into account the great diversity in size and shape of individual charities within the sector. Championing of charity trusteeship (by both Government and infrastructure bodies), including high-profile trustee role model examples and a mentoring network may assist in engendering an awareness of both the responsibilities and the benefits of trusteeship.

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

6.1 Charities should focus on their charitable missions, but not simply rely on their charitable status as ‘proving’ their worth. If they follow all current legal guidance and requirements and are transparent, they should easily be able to evidence proper accountability. They should be less defensive and publicise the positive work that they carry out, rather than just responding to negative publicity.

- What, if any, changes might this mean for current arrangements?

6.2 Charities need to follow guidance from the Charity Commission which is already in place, e.g., risk management guidance, reserves policy guidance etc.

- How should charities assess their long-term viability and/or sustainability?

6.3 It is important to acknowledge that not all charities will have long-term viability, whether this is for positive reasons (because their mission has been fulfilled or is obsolete) or for less positive internal or external circumstances. However, all charities should consider their beneficiaries in the long-term as part of their focus on their mission and beneficiaries – they should have a process of succession planning in place to avoid a service vacuum for those who rely on them, should they become unviable.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector? No particular comments.
Social investment
8. What is the potential of social investment and social impact bonds? No particular comments.

The role of the Government
9. What should the role of Government be with the sector?
9.1 Both national and local Government should facilitate, champion and partner the charity sector. Where it funds charities to provide statutory services, it should fund them properly and not expect charities to make up funding shortfalls.

- What should be the role of local Government? No particular comments.
- What should be the role of the Charity Commission?
9.2 The Charity Commission’s acknowledged role is as both regulator and promoter of the sector, but there is an inherent tension between the two, and the Commission has been forced recently to see itself as a regulator first and an adviser second. A structural split of its advice and regulatory functions would remove some fear among charities that seeking advice will attract regulatory attention with its attendant reputational risks. The advice function of the Charity Commission remains very important – the publications that it produces are heavily relied on in the sector.

- Have these relationships changed? If so, how? No particular comments.

- How should Government (national or local) focus its resource to deliver its civil society agenda? 9.3 National Government should focus its resource on providing adequate funding to the Charity Commission in order to enable it to perform its vital functions effectively. It should give the charity and voluntary sector a high profile within an appropriate Government department and champion its role, backing this up with evidence-based policy funded through well-chosen research partnerships.

- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity? No particular comments.
- What are the opportunities and challenges associated with local devolution? No particular comments.

Lessons from other sectors and countries
10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?
10.1 There are interesting lessons to be drawn from the recent establishment of the Australian Charities and Not-for-profits Commission. Whilst its establishment was difficult and its maintenance has been challenging, the process was expertly conducted through close work with the sector and with academics, and the body successfully defended its position despite operating in an adverse political climate. The Charity Commission may find this of particular interest.
Authors: Dr Karen Atkinson, Professor Warren Barr, Mr Brett Crumley, Professor Debra Morris, Dr John Picton, Dr Jennifer Sigafoos

5 September 2016
What role should trustees play in the performance and effectiveness of a charity?

[1] Impact is an area where many charities struggle, but is a vital part of assessing the performance and effectiveness of a charity. The essential trustee guide from the Charity Commission is a good guide of the legal and financial responsibilities of a trustee. Impact, however, is scarcely addressed in the guidance. There is also no mention of the trustee’s duty to ensure the charity’s activities are always judged on their impact.

[2] New Philanthropy Capital produced a report on impact in 2012 looking at how widespread measurements are adopted. This report highlighted a number of critical issues that need resolving if charities are to improve on their impact measurement:

- c.9% of government funding given to a charity is spent to report back on how well the efficacy of the spend (Many larger funders do not build in costs for evaluation in their grant distribution and as a result it is often only the larger charities that engage in formal assessment of impact)
- Only one third of charities have at least one person whose role it is to measure impact of their work
- The number of charities claiming to measure impact is greater than those claiming to measure outcomes
- 80% of charities involved in impact measurement do not use any kind of planning model on which to base their impact evaluation

[3] A standardised impact framework that allowed for the many different types of organisation to report on their effectiveness would allow for benchmarking for boards to assess their charities and give a clear idea of the effectiveness of organisations to donors. It would also help reduce costs and improve quality. Many larger funders do not build in costs for evaluation in their grant distribution and as a result it is often only the larger charities that engage in formal assessment of impact.

[4] From our experience of working with major through to small charities, once the legal and financial responsibilities are put aside, impact is one of the most neglected considerations when regarding the performance and effectiveness of a charity. If a trustee’s role is to “have independent control over… a charity’s management” then it should follow that ensuring the charity’s impact is part of the good management of a charitable organisation. Trustees must focus on whether their charities have a framework for measuring impact in place and going further, be responsible for holding the senior management team (SMT) to account on this issue.

[5] In order to do this, trustees must be prepared when required to work closely with the executive and be engaged in operational issues, particularly if they are trustees in a smaller

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125 Making an Impact: Impact measurement among charities and social enterprises in the UK, New Philanthropy Capital
126 The essential trustee: what you need to know, what you need to do (CC3), p.2
The key is working in partnership with the executive as a single team with single ‘beneficiary focused’ objectives: trustees must not be restricted by guidelines on ‘strategy’ and ‘operations’.

How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

Training:

[6] A spring 2016 survey by the Association of Chairs\textsuperscript{127} reported that:

- 46% report having no budget for board development; only 19% had a formal allocated budget; while the balance address development on a case by case basis.
- only 34% of Chairs had been given an induction – the most basic form of support.
- Apart from publications, fewer than 50% had accessed any kind of development support in the last 12 months.
- Many restricted themselves to free sources of support. 37% had accessed paid training (two-thirds reported it had been funded by the organisation, a third paid for training themselves).
- 16% had had mentoring or coaching.

[7] An accredited programme for trustee development, recognised nationally by the sector’s governing bodies, which will help to attract and recognise trustees. Such a programme would cover the necessary legal and financial risks and responsibilities of becoming trusteeship, but also crucially incorporate innovative learning practices such as 1-to-1 coaching, group action learning and board shadowing.

Example of innovation:

[8] Charity Leaders formed the UK’s first Trustee Academy with an Institute of Leadership Management accredited programme for on-going supported development, the Advanced Trustee Programme.

[9] The programme is not the solution to all the problems faced by the leadership in the charity sector, however the innovation of the programme for example the group action learning, one on one coaching, workshops, board shadowing and written assignment all combined in one course is having a profound impact on the participants and has received backing from Rt. Hon Baroness Prashar, senior figures in the Charity Commission and a number of major trusts and foundations and charities of all sizes in the UK. The next step is to introduce distance learning through an e-learning platform.

[10] The full programme can be viewed \textcolor{blue}{here} and an overview is below:

\textsuperscript{127} Association of Chairs 2016 Survey of Chairs and Vice-Chairs
The trustee board is responsible for ensuring the organisation furthers its objects (purpose) by setting and agreeing a long term strategy. This explores strategy and social impact and how trustees can meet the organisation’s aims and objectives. It is vital that trustees know what an effective strategy looks like; how the definition of strategy is
dependent on the degrees of freedom available; compare processes of strategic planning; investigate how impact is measured and how strategy and impact together shape the direction and allocation of resources.

[12] Developing on this theme it is also vital that trustee boards also learn in teams as well as individually. This allows the board to bond and gain a greater understanding of the thoughts and processes of fellow trustees. Using the example of strategy setting as previously mentioned, as part of a board development programme we ran with a large charity recently, when discussing strategy and how each board member defined and understood the term, we received a different answer from each trustee.

[13] This is important because something as simple as what is meant by strategy alters one’s mind-set when approaching it. To have all trustees agreeing on a common definition of strategy means that all begin in a similar mind-set and have buy-in on the process. This example is one we see regularly when conducting this exercise with boards, evidence that training together is just as important as individual development.

**Working as a group**

[14] Developing this theme further, the challenge for trustee boards is in making ‘good’ decisions and making ‘good’ decisions as often as possible. Part of the decision making process is to include different ways of seeing a problem and exploring alternative possibilities to solve the problem. This requires genuine dialogue, a range of perspectives and the confidence of each team member to feel they can speak out and question before a decision is taken.

[15] The challenge for trustees is making good decisions and making them as often as possible. On the whole, the skills on boards with the exception of digital, is not the key issue. For the trustee board it’s not just about skills but the ability to use these skills in a voluntary senior leadership team, and this requires time on creating a ‘high performing team’.

[16] Too often, too little time is spent on really getting to understand each other’s skills, motivations and preferred ways of working. It’s not enough to prepare trustees for their role by understanding their job description. Trustees and boards need support through the induction/integration phase and then with on-going support to ensure each trustee continues their learning process throughout their time on the board.

**What, if any, changes might this mean for current arrangements?**

[17] Charities must be prepared to invest in the development of their board, which must include finances available for individual and team development.

[18] Given the results from the Association of Chairs’ survey highlighted on page one, subsequent high profile charity collapses and errors over the last 12 months, as well as
statistics showing that 75% of trustees leave the board at the end of their first term: it is clear that investment in the development of boards is vital and has been long neglected in the majority of cases.

[19] There are number of elements to unpack here (most of which are covered elsewhere in this document), most crucially funding. In an environment where charities fear spending money on activities that do not fit neatly into the delivery or fundraising columns for fear of having high administrative costs, it is understandable we have gotten to the point where training and development is a luxury.

[20] This is vital to reverse. Training and development must be viewed by all; trustees, second tier bodies, the government, the new divisional regulators and particularly the Charity Commission as part of the good governance and due diligence of a charity.

[21] As referenced, trustees must be prepared to invest in their own development and be determined to continue their ‘learning journey’ while they are on the charity board. Trustee boards need to drive their own learning and that of their charity through measurement and reflection i.e. the learning cycle.

Diversity

[22] The challenge is made all the greater as boards are increasingly under pressure to diversify their membership to embrace the differences between team members rather than the similarities. Much of this narrative focuses on simplistic measures of diversity such as race and gender, but our experience has shown that it is not race or gender diversity that is critical, although these may have an influence, it is cognitive diversity. That is, the ability to see the world through a different lens and ask different questions that help to ensure that when a decision is made, it’s as likely as possible to be the ‘best’ decision that the board could have made.

[23] While we are not advocates of centrally imposed quotas on boards for the reasons above, the government and regulators can help encourage (and lean on where necessary) charities to promote diversity on their boards. Charities should be seeking to select trustees from a wider base, beginning with steps as simple as public advertising. They must also be prepared to increase diversity and also prepared to accept and embrace the challenges that differences on the board will bring.

[24] It is this latter challenge that has been one of the reasons for slow progress on diversity. This is down to trustees and chairs wanting to avoid conflict rather than embracing the influx of different opinions as positive debate and a good way of avoiding groupthink which plagues many boards up and down the country.

5 September 2016
About us

The Charity Tax Group (CTG) has over 500 members of all sizes representing all types of charitable activity. It was established in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue.

CTG welcomes the opportunity to respond to this call for evidence and would be happy to meet officials to discuss our answers in greater detail.

The Call for Evidence

What is the role and purpose of charities in civic society in England and Wales?

1. The charity sector is very diverse and it can therefore be counter-productive to identify a single role and purpose. CTG’s membership ranges from large grant-giving foundations to small local charities and different members operate in very different ways. In essence, charities work to provide public benefit to support their beneficiaries and they are supported by a mixture of grants, donations, investments, legacies and other income. Charities provide essential social support which Government would often not otherwise be able to afford or deliver. In the context of charitable giving, CTG has always supported the premise (which underpins Gift Aid) that donors should not be taxed on income they have given away to good causes. It is important therefore that the tax system operate effectively and fairly to complement and support charities, rather than to provide administrative obstacles and other hindrances.

What are the main pressures faced by charities currently, and what impact have these had?

2. Charities face a number of financial pressures, with tax a major issue for both small and large charities. While charities benefit enormously from a range of tax reliefs, they also face major obstacles such as irrecoverable VAT, which (it has been estimated) costs the sector up to £1.5bn a year. Equally, the full implications of Brexit are still unknown. It seems likely that charities will see their funding reduced, particularly while the uncertainty of the process of leaving the EU acts as a deterrent on donations and diverts resources away from them. However, it remains to be seen precisely what knock-on threats and opportunities charities will face in a post-Brexit world.

3. Charities also face administrative burdens associated with complying with the tax system. This is a particular problem for smaller charities, which are often volunteer-led and lacking resources. Government plans to simplify the eligibility requirements for the Gift Aid Small Donations Scheme is a positive development, but other policies such as the Apprenticeship Levy underestimate the significant resource implications of major changes to infrastructure and process within an organisation.

4. Strong governance on financial issues is very important, but this is made harder when charities are required to comply with complex and poorly-targeted legislation. This is particularly true in the context of Government attempts to counter tax avoidance and evasion and CTG continues to urge the Government to ensure that measures are focused and proportionate, particularly in respect of the new Common Reporting Standard. Unhelpful and poorly researched press criticism of charities tax position can also prove challenging and undermine trust in charities.
How do charities seek to innovate, particularly in the digital arena?

5. Charities need to adapt to technological changes and many are embracing digital channels as a more efficient way of contacting their donors, managing their records and raising funds. It is therefore very important that tax guidance and legislation adapt to reflect changes in practice and technology.

6. CTG recently called on HMRC to consider including contactless donations within the scope of the Gift Aid Small Donations Scheme, following evidence that charities were starting to use this form of payment as a fundraising tool. We were very pleased to see that the Government has accepted this proposal and recognised the need to future-proof the scheme. CTG also supports efforts to extend a reduced or zero rate of VAT to e-books and e-publications, a move that would ensure equal treatment with printed materials. Such a move would benefit universities and many other charities that are increasingly contacting their donors and beneficiaries through digital means.

What skills are required to lead and manage a charity?

7. A wide range of skills are required to lead and manage a charity and this includes an understanding of finance and tax issues. Skills required are no less than a well run commercial organisation with appropriate specialists in the areas appropriate to the business focus law; for charities this might include fundraising, tax, accounting, risk management. While it is important that charities make use of professional advice on tax issues, legislation and Government guidance should be clear and simple to ensure that organisations are not required to spend money on simple compliance activities, when it would be better directed towards charitable activity.

8. In order to maintain the integrity of tax reliefs, it is important that there are appropriate safeguards in place to prevent tax avoidance. However, in the context of charity tax reliefs it is important that these safeguards are proportionate and are not so complex as to deter people from taking on such responsibilities.

What role should trustees play in the performance and effectiveness of a charity?

9. In the context of charity taxation, trustees should ensure that they comply with all reporting requirements required in tax legislation and guidance, while also maximising the income of the charity through permitted tax reliefs and exemptions. It is important that the Government support trustees and charity managers to do this by providing clear and accessible guidance and, where appropriate, training and other support. Charity trustees should ensure that the Board includes people with the range of technical knowledge and skill which the charity needs. This increasingly needs to include one person with sufficient tax knowledge to spot issues that may need to be addressed. Charities should be encouraged to select tax knowledge as a requirement on their register of required competencies of the Board.

How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

10. Charities can ensure greater accountability through appropriate transparency in their financial dealings and by full compliance with all reporting and accounting requirements. Government can help charities where possible by simplifying the tax environment in which charities operate to minimise operational costs.
What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

11. Our response to question 2 highlights a number of the challenges charities face in relation to financial sustainability. Regular consultation with the charity sector is crucial, to understand fully the practical implications of any policy changes, with detailed impact assessments and targeted research important. This is important in the context of new policies, but also where charities find themselves undertaking work and assuming responsibilities formerly provided by central and local Government, as the tax implications are often different.

What is the potential of social investment and social impact bonds?

12. CTG welcomes the potential value of social investment and social impact bonds, so long as they complement and do not dilute traditional fundraising channels. Charities benefit from important tax reliefs on individual giving and while the introduction of the Social Investment Tax Relief is welcome, it is not as generous and subject to less strict regulatory requirements.

What should the role of Government be with the sector?

13. CTG benefits from strong working relationships with Government departments including HM Treasury and HMRC. HMRC’s Charity Tax Forum provides an important opportunity for dialogue and consultation with the sector and CTG welcomes the willingness of officials and Ministers to speak at events and conferences. These established relationships allow charities to have a positive influence on policy developments, although we would encourage officials to ensure a dialogue with staff with practical tax knowledge as well as policy representatives.

14. Problems arise most frequently when there is a lack of consultation with the charity sector, and this often results in policies being developed where the understanding of the practical implications for charities is unknown or unclear, leading to unintended consequences for charities. This is usually exacerbated by a lack of communication between Government departments during the early stages of policy formulation – better communication between the Charity Commission and HMRC would certainly be helpful. This can result in potential difficulties being identified too late in the policy process for major changes to be made; lack of consultation often results in the sector having to take a reactive (and sometimes confrontational) approach rather than a collaborative and proactive one. However, Government can take positive steps by resolving issues when identified by the sector, such as in the case of the introduction of a charity exemption for the new 45% tax on restitution interest.

What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

15. Charities can certainly learn a lot from other sectors, certainly as operations within the sector become increasingly professional. At the same time charities are by their nature different and do rely on different support and funding systems, and legislation must always be drafted with these differences in mind. The UK charity system is probably one most developed and best in the world matched by its Governments extensive tax system for relief. But with such an advanced and evolving system comes complexity which needs a dramatic review to identify duplication and over layering of regulations.
16. In the context of charity taxation, most legislation applies UK-wide. In these circumstances it is important that the Government takes into account all charities and does not take an Anglo-centric approach. The lack of consultation with the Scottish Government on the use of the Apprenticeship Levy is an example of poor planning which may result in larger Scottish charities being unable to benefit from their contributions, resulting in the policy becoming effectively another payroll tax.

17. Where policy responsibility is devolved, as is the case with business rates, CTG would encourage close collaboration between the devolved Governments to ensure that charities do not face excessive administrative and compliance burdens resulting from different rules.

18. As to more general issues of charity law, however, the differences of scale between the three jurisdictions are such that there is little that England and Wales can learn from the other two, simply because the disparity is so great. As to overseas jurisdictions, the concept of “charity” in the UK is so much founded on common law concepts that it is difficult to see that there is much to be learned from civilian systems.

5 September 2016
CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world’s only professional accountancy body to specialise in public services, CIPFA’s portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

CIPFA’s submission to the Select Committee on Charities: Call for Evidence

1 Introduction

1.1 CIPFA welcomes the opportunity to contribute to this call for evidence, which covers a wide range of topics.

1.2 Whilst CIPFA has interests in many of these topics, our response focuses on the lessons which the charitable sector in England and Wales can learn from other sectors [Question 10]. Our response focuses on CIPFA’s work and experiences in the area of governance in the public sector.

2 CIPFA’s success in standing up for good governance in public services

2.1 CIPFA has a particularly strong tradition in championing effective governance. We have carried out significant work in leading a debate and influencing practice on governance arrangements for the public services, through the development of frameworks and guidance which we believe is relevant to the charitable sector. We draw on that experience in responding to the Committee’s question.
2.2 CIPFA believes good governance plays a crucial role in the success of organisations – whether they are part of the public, private or third sector. It encourages better informed and longer-term decision making as well as the efficient use of resources. It strengthens accountability for the stewardship of those resources. Good governance is characterised by robust scrutiny which places important pressures on improving performance and tackling corruption. Good governance can improve organisational leadership, management and oversight, resulting in better outcomes.

3 Parallels, challenges and pressure on governance arrangements in the public and charitable sectors

3.1 As with public sector, the governance arrangements of charities have become more keenly observed and subject to increased scrutiny. All charities need robust governance arrangements which are not only sound, but are seen to be sound.

3.2 Similar to public sector bodies, the individuals who are responsible for the mission, vision and stewardship of the charity come from a range of backgrounds. As a diverse group united by the charity’s mission, their knowledge, experience and opinion of what constitutes good governance is likely to vary. Therefore, encouraging and engaging boards to review and improve their governance arrangements can be difficult and is often neglected.

3.3 Charities also need to be well governed to navigate the increasingly changing and complex sector they operate in. Similar to public services, charities have been required to adapt the way they operate to survive in a difficult funding environment. More charities are now seeking alternative sources of income, working collaboratively with other organisations and making difficult decisions regarding the provision of their services, as the gap between funding required and funding available widens. This has placed greater pressure on board’s ability to effectively manage risk, ensure transparency and exercise control – highlighting the crucial need for good governance.

3.4 One key area where the governance arrangements in the charitable sector differ to the public sector is in the area of oversight. The charitable sector is unique as the oversight of the governance arrangements of the organisation’s board lie with the board members themselves. It is commonly the trustees themselves who recruit fellow board members, supervise their own conduct and appraise their own performance. Oversight is less clear as there is no equivalent to the sponsoring or government department that the boards of public bodies are accountable to. This makes the need for charity boards to regularly evaluate and improve their governance arrangements vital.
4 CIPFA’s approach to good governance in the public sector

4.1 We believe that it is important to promote a local self-regulatory approach to governance. However, it is important for this to take place within a consistent and carefully developed overarching framework.

4.2 Our most recent generic project in the area of governance is the development and promotion of the International Framework: Good Governance in the Public Sector which was drawn up in association with the International Federation of Accountants (IFAC). A summary of the Framework is included as an appendix to this response. The International Framework is intended to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector.

4.3 The International Framework was developed after a review of relevant current governance literature from across the globe, and builds on this literature, particularly IFAC’s and CIPFA’s earlier work on governance, including Governance in the Public Sector: A Governing Body Perspective (IFAC, 2001) and Good Governance Standard for Public Service Organisations (CIPFA/OPM, 2004). It sets out seven core, high-level principles characterising good governance in the public sector. They bring together a number of interrelated concepts. The International Framework provides guidance on implementing the principles by providing an explanation of the underlying rationale, together with supporting commentary, for the key elements of each principle and the supporting sub-principles. The International Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures in the public sector. The Framework also considers sustainability and the links between governance and public financial management in order to encourage a recognition of the need to focus on the long term.

4.4 Since the publication of the International Framework, CIPFA has been working with the Society of Local Authority Chief Executives and Senior Managers (SOLACE) and other organisations associated with local government together with local government practitioners to update Delivering Good Governance in Local Government: Framework, which sets the standard for governance in local government across the UK. In developing the new Framework, the core principles and sub principles from the International Framework have been adapted for the local government context and translated into a series of expected behaviours and actions which demonstrate good governance in practice. A new edition together with guidance notes was published in April this year.
4.5 The local government framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities; that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

4.6 Local authorities test their governance structures and arrangements against the framework, and report publicly on the extent to which they are living up to the framework and their planned actions for the future on an annual basis. The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) fulfils the statutory requirement in England, Scotland, Northern Ireland and Wales for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

5 Recommendations to improve governance in the charitable sector

5.1 CIPFA believe greater guidance is needed to enable trustees to improve the governance of their charity. Although the International Framework is aimed at public rather than third sector organisations, we believe that the key principles are relevant and could be integrated into a framework for good governance for charities and not-for-profit organisations.

5.2 The framework would help trustees by clearly defining the principles that should underpin good governance. It would recognise the unique characteristics of the sector and be applicable to all charitable organisations. Codes which already exist could be referred to in order to shape a more overarching governance framework.

5.3 As with the International Framework, charities would be encouraged to test, report and make changes to their governance arrangements against the framework. The framework would help trustees to be better equipped and support them in their role to effectively evaluate the arrangements of their own charity board.

5.4 CIPFA also recommends a more structured approach for charities to report on their governance arrangements is developed. This should be done in partnership with the creation of a framework for good governance. The requirement for organisations to report against a code or framework of governance on an annual basis is not new. It is done in both the private and public sectors, with the requirements for UK Local Authorities described in 4.6. However, there is no such requirement for charities. Current disclosure requirements around governance are basic, even for the largest
The Chartered Institute of Public Finance and Accountancy (CIPFA) — Written evidence (CHA0079)

charities. Whilst the requirement to report against a framework cannot guarantee good governance, it can help by providing a benchmark for aspects of good governance as well as an effective stimulus for trustees to improve their practice.

Appendix One
International Framework: Good Governance in the Public Sector:
Executive Summary

5 September 2016
1. What is the role and purpose of charities in civic society in England and Wales?

1. Charities are so varied they defy generalisations. Some provide expert professional helping services to people in need, while others bring citizens together to take collective action to change lives, laws and minds. Some charities run the buildings, spaces and schemes in which communities of people meet, play, create, perform, learn, seek refuge or make friends; other charities produce research, run websites or helplines and rarely meet face-to-face with those they help the most.

2. Some charities own huge assets, manage millions of pounds and employ thousands of people, while others do what they do without office space or a salary. Some charities aim to grow and spread their beneficial work as far and wide as possible; while others simply seek the longevity to serve successive generations within the one same neighbourhood. Some charities aim neither for growth nor for longevity, but to put themselves ‘out of business’ by solving the problem they were set up to tackle.

3. Some charities are founded as expressions of love, compassion or religious faith, to offer kindness, bear witness, to show unconditional humanity in adversity. Some charities are created by professionals or service users who see a failure or a gap in existing services and practice, and have a better idea of how to meet people’s needs. Some charities are born of a belief in the importance active citizenship, self-help and mutual empowerment in their neighbourhoods and communities. Yet other charities are created as a heartfelt response to experiencing tragedy, grief, anger or injustice.

4. The rich diversity of the charity and voluntary sector organisations in this country is simply staggering. But whatever their unique history, current form and particular function, every charitable organisation started with a person or small group of people who had the vision and commitment to make something new or different happen that wasn’t happening before. Each person had a sense of mission, and that mission became a charitable one, shared and spread by others who became the trustees, donors and supporters helping the charity to achieve that mission, to make change happen. Our sector’s fundamental essence and role in civil society is to be ‘changemakers’ – from the ‘micro’ level of having a positive effect in people’s personal lives, right up to the ‘macro’ level of changing society, politics and the planet.

5. Children’s charities, many of whom are members of Children England, exemplify the charitable drive to serve and protect a part of the population who cannot help themselves on their own. The range of needs and new ideas addressed by the charity sector is limitless, but whether a children’s charity is supporting mental health in schools, matching children with adoptive parents or nurturing parenting skills in struggling families, each has the single-minded guiding mission of doing what’s best for children, and can use its impartial, specialised understanding to advocate for the best interests of those children. For members of society too young to vote but most acutely affected by policy decisions, and especially for those in care rather than looked after by family, this advocacy role is hugely important.

- How has this changed?
6 Pressures on charities to fill larger gaps in statutory provision and meet a higher volume and threshold of need in beneficiaries means their role in providing public services is more vital than ever. Many community services, such as libraries or health centres, are provided by charitable organisations without members of the public understanding that it’s a charity running the service – such is the reliance of the state on voluntary action.

7 Funding and commissioning conditions have also changed the role of many charities, subjecting them to stricter agreements that limit their ability to advocate on behalf of beneficiaries and involving only a select few, generally larger, charities as strategic partners to government departments with a direct channel for sharing intelligence from the communities they work in. Combined with the effect of the Lobbying Act, the (currently paused) plan for an ‘anti-advocacy’ clause in government grant agreements and increasingly narrow guidance from the Charity Commission on what charities can speak out on, this environment is having a quietening effect on charities who would otherwise use their understanding of beneficiaries to influence policy development or campaign on issues affecting children.

8 The role of infrastructure bodies like Children England has evolved in response. We were established, in partnership with the Wartime Coalition government of 1942, to prepare for the post-war promise to create a universal state commitment to the welfare of all children. Our purpose was to help with the transfer of duties and expertise from charities to councils as the government agreed to stop relying on charitable good will for the nation’s child protection, care and adoption provisions, and make it a formal public duty and service. Over the decades since then our commitment to that partnership working between government and charities has taken us into varied territory: working closely with government and civil servants to help create the Children Act 1989 and ensure charity expertise went into it, and the charity sector then implemented it; adapting to and training members for the emerging marketplace, competitive tendering and new commissioning models for funding their services.

9 Our members now require us to be a more independent voice for them, separated financially from government, championing the role of the children’s voluntary sector and raising concerns about the conditions in which they are seeking to sustain their services and efforts for children. As many are driven to prioritise service delivery and their capacity to speak out about the causes of social deprivation is diminished, it’s essential that we as their umbrella body campaign for society to ‘put children at heart’ in order to make decisions that improve, rather than damage, children’s welfare.

What makes them distinct from other organisations doing similar work?

10 It’s important to say that there are things that charities can and do share with other types of organisations doing comparable work. If they are providing public-facing services charities are often learning from and sharing learning with public sector colleagues, and many professionals come to work in and create new charities bringing skills they gained in the public sector. Similarly, as organisations that have boards, stakeholders, accounts and audits to prepare, managing money, employment and sometimes significant assets and investments, there are many parallels with private business, and again, many people come
into charities bringing great skills they gained in commerce. We have much to learn from other sectors, but there are some factors that we believe are unique to charities.

11 Charities are committed to achieve a singular mission and that mission is about people. This and their charitable structure and governance by volunteer trustees means that they can (and should) put beneficiaries’ welfare ahead of profit, power or personal gain. While most charities will need and seek at least some cash to cover their costs, in fact a charity can keep running, keep being relevant and active, indeed a charity can even succeed and achieve its mission, without money at all. If there’s no money left or not enough profit to be made in a commercial business, or if there’s no taxpayer budget left for a public service to stay open, they both shut. Charities are made of, and for people, not money. If people keep the passion, remain willing to give the time and support, are still committed to speak out, take action, to raise new funds and volunteer, all sorts of options remain open to charity that simply don’t exist in business or public sector services.

12 This is especially crucial in children’s organisations, where children’s own voices can so easily go unheard if they are not consciously put at the heart of decision-making. It also means charities naturally aspire to co-operate, rather than compete, with organisations working in complementary spheres, and any innovation or risk is driven according to the impact on beneficiaries rather than budgets. (This is something that we believe has been very eroded by decades of competitive market approaches to funding charities).

13 Charities provide unique value to a community: by mobilising local people’s time and skills in volunteer roles; by drawing on intelligence from beneficiaries, volunteers and supporters to provide responsive and progressive services and activities; and by being transparent and accountable to supporters so that the cycle of learning, openness and involvement can continue.

- What role can charities play in community cohesion and civic action?

14 Charities are particularly inclusive and representative of communities because they can be established relatively easily (ie by individuals without qualifications, wealth or influence) and, as mentioned above, draw on a diverse pool of skills and interests when recruiting staff, trustees, supporters and volunteers. Based on relationships, they by nature make the most of people’s potential, build on their skills and demonstrate the power that everyone has to contribute to a community.

15 Charities working with the most vulnerable children and families are well-placed to offer the resources that help people engage with their communities – positive relationships, connection to other services, a voice and a sense of empowerment and confidence.

16 When members of a community feel divided, marginalised or unrepresented, charities can provide a channel for positive individual action, self-expression and nurturing relationships between people as they work towards shared goals. They can respond quickly to demands for action and mobilise support from across political and social divides, bringing groups together who might otherwise not have the chance to meet and understand each other.
Young people benefit from charities not just as beneficiaries but as volunteers, activists and collaborators, with youth volunteering having risen in recent years. Local opportunities for positive action provided by charities in communities and schools have always been important for younger generations to explore their own values, develop skills and make connections with other generations, but in a fragile post-referendum climate they are more important than ever. Only if young people have the chance to take self-directed, voluntary action – beyond the institutions, transactions and domestic settings that shape their lives - will they value their own and others’ capacity for co-operation and appreciate their power to contribute to society.

- What challenges do charities face in trying to fulfil their role in civic society?

As mentioned above, the space for charities to advocate for social change has diminished in recent years and threatens their role in improving society for its most vulnerable populations. Despite a majority of the public believing that campaigning is a legitimate activity for charities, rhetoric from politicians, journalists and the Charity Commission reinforce the idea that charities should ‘stick to their knitting’.

A lack of understanding and accurate representation in the media means charities struggle to communicate their purpose, practices and impact to the public and potential supporters. While lack of positive coverage means reduced appreciation and awareness of charitable endeavour, and missed opportunities to generate support, actively negative coverage does damage to the reputation of the whole sector and means loss of donations, and means charities have to use resources to counter stereotypes and speculation that could have been invested in their main charitable purpose.

Charities are also criticised for being either too large, efficient and business like or too small, informal and unprofessional – spending too much or too little on business overheads. The reality is of course much less polarised, with the vast majority operating at a scale and efficiency that is appropriate to their beneficiaries and their income.

Our Chief Executive Kathy Evans articulated these challenges in the Guardian.

- How can these challenges be overcome?

While charities themselves need to improve how they communicate, media owners, editors and politicians should seek robust information about charitable activity – both the legislation and regulation on which the whole of the voluntary sector is founded and the constitutional and strategic basis on which an individual charity operates – before acting or commenting in a way that could damage charities or their beneficiaries.

Government must refresh its agreement with the voluntary sector that campaigning and advocacy are legitimate and necessary functions of a charity wherever it is to the advantage of beneficiaries. Government must be clear with charities, the media and the public, as well as in funding agreements, that this is the case.

Central government departments should be confident in seeking dialogue with relevant charities when planning policy and legislation, and support local government to do the same.
What are the challenges to financial sustainability, as well as efficient resource and risk management for the sector?

For the charities that Children England represents, who are largely children’s service providers in local communities, the single greatest threat to their sustainability is the depth and impact of sustained cuts to local authorities.

This is not because they are all overly or simply ‘dependent’ on council funds for their own work, but far more fundamentally connected to the overarching legal duties that councils hold for the protection and support of all children and young people, and the long history of charity and council collaboration, innovation and joint funding in delivering that support and protection. Even if a local children’s charity receives no council funding whatsoever, and is able to generate the income it needs through fundraising and charitable sources, the impact of severe council cuts and radical changes to public service referral thresholds and levels of support for children and families (particularly in early intervention) are having a huge impact on the levels of demand for their charity’s help, and on the types and complexity of needs and risks among the children and families they see.

Children England has been documenting and raising alarm about the complex and deeply unsustainable problems in the operating conditions (human and financial) for children’s services for many years. In 2012 we gathered financial and case study evidence from charities and councils alike, and modelled what we saw happening, in a report called Perfect Storms, which we would strongly recommend to the committee for our more substantive evidence about the financial sustainability of children’s charities.

Despite being published 4 years ago, the picture painted, and the dynamics at play, in Perfect Storms remain largely the same – simply more severe. For example, since 2010 there have now been over 1,000 children’s centres closed across communities in England, and there are many more closures to come in early 2017. Whether or not those centres were contracted and run by charities, all local charities feel and see the knock-on impact of such pivotal family support services closing, not least when faced with parents in a more desperate search for comparable support, whether or not they are even approaching a suitably equipped organisation for it.

How can these challenges be overcome?

Given the sheer depth and complexity of the sustainability problems highlighted above, this is not a question that deserves simplistic bullet point solutions. Our process of working out how to respond to the Perfect Storms picture for children’s charities led us down a long, deliberative policy development process of working with many of our members and colleagues in public sector bodies and unions, to develop a ‘Declaration of Interdependence’ that might enable a wide range of changes and improvements in relationships between voluntary and statutory sectors, and in the commissioning models and approaches being used, to add up to a larger change of direction. It is also linked here as additional evidence to the Committee, and the support and sign-up has grown since publication. It has been adopted in one council as their basis for new commissioning approaches with the voluntary sector, and many others have taken it as a prompt to focus
on certain areas that they can change first, like committing to Living Wage across all contracts.

29 If we look across all public service areas, not just children’s services and charities, Children England encourages everyone to reflect honestly and critically on the impact of ‘market competition’ that has come to proliferate in the relationships between state and charities over the last years. We believe that the ‘marketplace model’ has been systemically instrumental in fuelling the enormous growth of a few ‘hyper-large’ charities, while at the same time our small and medium-sized community-level charities have withered, struggled, been ‘knocked out’ by larger contractors, or their unique (and lower cost) community volunteer models have been lost, professionalised and ‘standardised’ in order to become tender-ready.

30 Ironically perhaps, the very qualities of some modern charities that the general public have come to find most unpalatable and uncharitable – such as being ‘indistinguishable from big business’; having growing extremes between top managerial pay and front line staff; being too ‘flash’ and slick and brand-marketed – are precisely the characteristics that public procurement and government officials most value, and reward most often, within the ‘competitive marketplace’. We have, collectively, to move away from the competitive market model that is making increasingly scarce public funds go round to fewer and fewer larger charities. It is no more sustainable in the long term for those large charities than it is proving already for small and medium charities.

30 September 2016
The Chilterns MS Centre was established and registered as a charity in 1988. We provide services and advice to people with multiple sclerosis (MS), their families and carers. We try to help people living with the disease by offering a number of life changing and supportive therapies and treatments that are effective for the patient, such as specialist neuro-physiotherapy, oxygen treatment and reflexology. The treatments, therapies and support we provide have a genuine impact on the individual changing the quality of their daily life. The word ‘lifeline’ has often been used to describe the centre, something that we are incredibly proud of. Chilterns MS Centre treats 330 patients each week and no one is ever turned away, however minor or severe their disability. We have 6 to 8 new patients referred to us every month. The NHS provides no long-term treatment for people diagnosed with MS. This means the treatments, therapies and services provided by the Chilterns MS Centre are a lifeline for people who have MS. The service we offer is subsidised by your kind, essential donations and the efforts of our hardworking fundraising teams.”

http://www.chilternsmcentre.org/about-us/about-us

The purpose of charities

Quite simply the purpose of charities is to help people less fortunate than our selves. The help of course is very variable. In the case of the Chilterns MS Centre [CMSC] it is to provide services, therapies and practical help that are not available elsewhere, or which is limited. The charity offering of CMSC has changed over the years only in the sense that we now provide help for more people with multiple sclerosis [MS] and we provide more therapies. In contrast the ability to obtain these services from the NHS has diminished.

Our reliance on volunteers is vitally important, without our 100 +/- volunteers we could not afford to deliver our services. Volunteers operate in support roles, for example we have a café which is run entirely by volunteers and which generates circa £19k pa. They also operate our hyperbaric treatment centre and our reception and some back office services.

The CMSC fulfils a very specific and niche role in the charity sector. We provide services such as physiotherapy to 350 of the 100,000 people in the UK with MS. Our professional services are provided free-of-charge to the user [although a donation is expected from those who have the ability to give. Even so our services are very heavily subsidized]. Focused and continual fundraising is required to fulfil what we see as our obligation to people with MS. [The NHS offer only limited help with this chronic disease and then only as ‘crisis intervention’. There is no on-going care available.]

Pressures and opportunities

The current pressures are the same now as they have been over time...funds. There is an endless requirement, in order to offer the best treatment and following best practice to fund our operation. All continuing professional development [CPD] requirements are adhered to, as are CCG guidelines, H&S Policies & Procedures. Our Trusts & Foundations fundraising team is focused on capital funds to sustain our operation; our Community
Fundraising team keeps our name in front of potential funders locally vying for limited regional funds.

There are particular pressures facing charities like CMSC which is specific i.e. multiple sclerosis operating regionally. Firstly we compete with at least two national MS charities whose marketing budget and “reach” far out strips ours. Secondly MS might be considered a “niche” condition, perhaps in the same way that Parkinson’s or Strokes or, to a lesser extent Alzheimer’s are niche conditions. As such unless a “giver” has been touched personally by this disease there is no particular imperative to give.

A regional charity such as CMSC competes at all levels for funds. National charities such as Macmillan Cancer, Marie Curie Nurses, Oxfam, British Red Cross, Hospices and the NSPC typically receive the lion’s share of funds because of their ability to appeal to a national audience. In addition cancer, abused children and abused animals “touch” potential givers in a way that niche conditions do not.

Innovation

As in the private sector it is incumbent upon charities to keep abreast of technology and get “it” to work for the charity in a positive way. Meaningful data can and must be harnessed to keep track of givers / major donors in the fundraising arena. Data relating to services; in the case of multiple sclerosis it is medical data relating to treatment and outcomes. (CMSC is working towards digitizing all data to meet CCG requirements in order to gain funding.)

The barriers that exist are the same in this area as others, funding. Small charities are reliant upon willing volunteers and striking a bargain with software / hardware suppliers. Plus the skill of implementing programmes and populating databases is time consuming and expensive. It is clearly not in the interest of a charity delivering services to expend funds on infrastructure rather than service delivery….a dichotomy.

Making funds available either locally or nationally via local or national government would serve to relieve small charities of the need to juggle funds and concentrate on service delivery. It is also important to note that trusts and foundations will typically not give funds for this type of project (either “revenue” funds or “back office” i.e. computer kit). They prefer to see their funds go towards the service delivery element, restricted capital funds for equipment and physiotherapist salaries etc

Governance and leadership

What skills are required to lead and manage a charity? That rather depends on the size and type of charity. Openness, honesty, integrity, communication skills in abundance and an even larger abundance of management skills, for use up-wards & downwards. The ability to delegate and network both internally and externally is vital to “spread the word” about the charity and its good works. Of equal importance is the willingness of everyone to “pitch in”.

How can these skills be gained?
Experience and practice. I think the management of a small / regional charity is both a career opportunity and a vocation. What charities can not afford to do of course is to make expensive mistakes in its hiring of management personnel. And although there are websites where a charity can advertise for its key people (for example, http://www.institute-of-fundraising.org.uk/home/) these sites are rarely free and do not appear to me, to be very nuanced in their offer.

**What support exists to develop these skills within the charitable sector?**

There are a multitude of companies who offer courses in everything related to charities from health & safety and fundraising to accounting in the charity sector. One example is DSC [Directory of Social Change], another is Community Impact Bucks, which exists to “Make a positive difference for the communities of Buckinghamshire and its Voluntary and Community Sector”. Sometimes courses are free but not always. These agencies may also be of variable quality.

**What role should trustees play in the performance and effectiveness of a charity?**

The role of trustees is paramount. It is that body’s responsibility to ensure that the charity meets all of its obligations, financial and service delivery. Of equal importance is the charity’s General Manager or Chief Executive. Board powers are delegated to the CEO for the day to day running of the charity and its compliance, with for example the Charities Commission and Companies House.

It is the Board of Trustees primary responsibility to ensure that the CEO has the proper skill set and vision to lead the charity. It is his responsibility to ensure that he has constructed a management team to fulfil the charity’s, strategy, mission and vision. In the case of CMSC service delivery and the welfare of people with MS is the overriding obligation.

In a regional charity it is certainly not enough for Trustees just to turn up for a monthly meeting, they need to engage with stakeholders and be prepared to make a positive contribution. In the Case of CMSC, we operate a sub-committee structure. Most of our fourteen trustees are involved with a sub-committee depending on their expertise and experience. In addition we have at least four trustees who have and are living with MS and several trustees who have family members with MS. By these and other means (see below) we ensure that all interests are represented.

**How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**

Most importantly Trustees with required and specific skill-sets are chosen / asked to become trustees. For example on the board of CMSC we have two accountants, two professional Company Secretaries, Two Consultants (one in business, one in the NHS), several retired and active business people and interested and active individuals who have an interest and training in marketing and PR.

**Accountability**
The very unedifying example of **Kids Company** must be avoided at all costs! And that is the responsibility of the Board of Trustees and the manager/CEO. All other things being equal if the charity is run properly and the Board understands its users, beneficiaries and stakeholders AND the CEO is allowed to use his delegated powers unencumbered, the chances are that the charity with fulfil its obligations. Key also of course is the management of the charity’s finances. It is critically important that ‘early warning systems’ are in place to ensure any difficulties are spotted and dealt with as they happen. In addition every penny of money given to the charity is recorded and allocated according to who gave, what they gave it for and how it will be used.

At CMSC we see the charity in two equal and complementary ways; from the end user to the Board and from the Board to the end user. Because the Board is mixed, users, none users, men and women with a broad skill sets which complement and enhance each other. It is however, not easy. Communication is the key in all areas. At CMSC we ‘talk’ to people using email In Centre News, via regular physical contact

**How should charities assess their long term viability and/or sustainability?**

This is a difficult question to answer. As a charity our turnover will be about £800,000 in 2016 and around £1 million in 2017. In some senses we live a ‘hand to mouth’ existence. But we are constantly looking at how to improve our services whilst conserving spending. We are also involved in looking at additional revenue streams that do not impact our core services at core times, i.e. capitalizing on our building and its resources. We have every intention of staying in “business” but we are constantly wary. For example every part of the operation is under review, whether it be care salary costs, facility costs, back office costs etc.

**Resource management**

We recently increased our fundraising team and therefore its costs to the charity. We are aware that we must increase those costs now in order to reap the benefits over time. (We have in place a four-year plan which has been thoroughly tested and scrutinized and agreed upon which has us in a break even point in year one and increasing ‘profit’ thereafter.)

**What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?**

I have spoken to come of this question.

**What are the benefits and challenges of funding for charities being derived from commercial contracts?**

In the case of CMSC we are launching a trading company which will be a wholly owned subsidiary of the charity and run entirely for the benefit of the charity. The challenge is funding it, ie the investment in money and resources.
In conclusion, and of course I can only speak to my experience. Local Government and local CCGs should recognize what an incredible resource they have on their doorstep and support us. There needs to be much more joined up thinking. The most obvious point being that a charity like CMSC potentially keeps patients away from the NHS except for real emergencies, we provide services it does not and that should be recognized in grants and a much better way of working. The Charity Commission should be and must be more responsive. It currently takes 15 days to get a response to a simple question! It is also toothless, why for example didn’t it recognize that Kids Company was in real trouble? It needs more people on the end of its telephones, people who can answer questions instantly.

I understand, though cannot source it that there are 300 charities for Veterans? If so why isn’t that consolidated to save money and duplication of effort? There are too many cancer charities all going after the same pot of money AND spending millions of pounds each year trying to get it...wasteful in the extreme.

All charities should be more accountable to a strengthened Charities Commission which must insist that accounts are filed in a timely fashion and then scrutinized vigorously by the Commission and if they are not performing correctly they should be closed down.

4 September 2016
Response to the House of Lords Select Committee on Charities

1. I write as CEO of Church Army, a charity which is 134 years old, working across the UK and Ireland. We have a team of over 600 people and about 3000 volunteers who serve their communities and make a difference. Our staff team number around 220. Our work looks different all over the country and includes work with the homeless, those battling addictions, building community on tough housing estates and drawing alongside the marginalised. Our Centres of Mission work in partnership with Dioceses in the Church of England. Some of these have food banks, others work with schools, others committed to empowering marginalised people to make better choices in life. We work as part of the Anglican Church, and our flagship project is the Marylebone Project which is the largest women only homeless project in London, with 119 beds, providing over 40,000 nights of accommodation each year and annually moving 100 women from the streets of London into their own homes.

2. As a voluntary organisation, most of the members and volunteers are not on the payroll, which brings its own unique leadership challenge. Leadership needs to be about casting vision and encouraging buy in rather than command and control. I was appointed to this role when I was just 31, and now mark my 10th anniversary as CEO.

Purpose of Charities

3. On a visit to one of our projects the former Prime Minister David Cameron said, “the state is not good with the personal and emotion, you however seem to have found models that work” Charities can do things that government cannot do, they can empower people to effect change in their own lives, and they can harness the expertise of professionals with the energy and goodwill of supporters to create positive change.

4. Church Army’s evolution shows how charities have changed. Historically Church Army ran lots of homes for the elderly and for orphaned children, but as the state assumed responsibility for this work we stepped back and focussed on areas where the state was less involved, such as the provision of services for homeless people and marginalised people.

5. Charities also are unique because they draw on the expertise of volunteers. We estimate we have over 3000 volunteers working with our teams. Not only do volunteers provide millions of hours of service for free, the act of volunteering changes people, gives them more experience and wider perspectives and contributes to the common good. However like most charities we find it difficult to recruit volunteers in today’s busy world, and like many other charities we suspect that the high profile safeguarding cases have made men in particular anxious to volunteer in case it exposes them to risks of allegations in years to come.
6. Charities each have their own DNA and their own values, but our work in fulfilling public sector contracts, especially with Westminster Council, shows us that this DNA adds value to our work and is valued highly by the public sector.

**Pressures and Opportunities**

7. Our own organisation is facing greater and greater need. More people find their lives in difficulty, more are struggling to make ends meet, and in London in particular more people are finding themselves homeless. At the same time, almost as a perfect storm, charities are struggling to raise the funds they need, the public view of charities is the lowest it has ever been, and we have no idea what Brexit will mean for charities.

8. The scandal over fundraising, the case of Olive who died after she felt she had been harangued by charities, and the tabloid focus on CEO pay has diminished trust at the very time we need to engage our donors more. When the fundraising crisis emerged, I wrote to all our donors with my personal five point pledge to care for our donors and to put them first. I was inundated with emails and letters saying our donors trusted us. However arguably it is some of the biggest and best known charities that have behaved badly and our whole sector is tarnished as a result. And yet they still use chuggers to hassle shoppers in the street and still hassle people on the phone. It is as if the biggest charities have learned very little.

9. The new Fundraising Regulator is currently consulting over how it charges its levy on charities, a levy that is regressive, penalises smaller and mid sized charities and benefits the largest charities, arguably the very charities that have landed the sector in hot water. Many of us have responded to the Regulator directly, or indirectly through bodies like ACEVO, to express our dismay at the current plans.

10. The uncertainty over Brexit has fit the financial markets and those of us with operational reserves have found our investment income and capital hit. Many development charities have been hit by unexpected forex losses. I fear the short term impact of Brexit will be over estimated and the long term impact of Brexit will be under estimated.

11. Our homeless work in London and Cardiff has suffered significant cuts to our Supporting People grants, and changes to the Government’s housing policy, especially over the Local Housing Allowance Cap in the recent Housing Bill. The Minister, Marcus Jones MP recently visited one of our projects and he told me this was an unintended consequence and he hoped this would change. But if this remains as it is, it would mean that we would face a significant income drop and we would have to seriously review whether we could keep our occupancy levels at current levels, and that risks homeless people being put back on the streets.

**Governance and Leadership**

12. The skills needed to manage and lead a charity through change are significant, and charities need to invest in the next generation of leaders, and have strong succession planning strategies. ACEVO in particular invests in CEOs and emerging leaders.
13. Charities also need to be strategic about their governance, to recruit the right Trustees who can provide scrutiny, oversight, challenge and hold executive teams properly accountable. The Charity Commission has high standards for charity governance and we provide all our new Trustees with an induction process to educate them of the work of the charity, the governance arrangements, their legal responsibilities. Each Board Meeting has time to declare conflicts of interest, and also to regularly review the performance of the Board, and skills audits of where we need to bolster the Board’s experience.

14. Since charities perform such an important and essential role in civic life, we need as a society to thank and honour those who give their time freely as Trustees.

**Accountability**

15. I think the two key words for the third sector are Accountability and Impact. We need to be accountable to our donors, but also show how their funds are making a difference. I write a letter each December to all our donors just to say thank you, and tell them how we have spent their funds in the year just gone. Unlike other letters this one has no “ask”, it simply thanks our supporters for their faithfulness and generosity and for choosing to stand with us. To my surprise each year people reply back grateful to be thanked, and attaching a cheque, even when there has been no ask!!

16. From this year, we will send our donors an Annual Review, showing how we spent their money, and outlining the objectives for the year ahead. We want our donors to feel they are part of the team!

**Role of Government**

17. Like many in the sector I am concerned that the Minister for Civil Society’s post has been moved from the Cabinet Office to DCMS. This feels like a sidelining for the sector, whereas the Minister was more able to influence wider government policy from within the Cabinet Office.

18. Government, local and central, can champion and model good practice. For example government could recruit homeless people from hostels like ours for work experience, or they could give staff volunteering hours to serve as volunteers or Trustees, or roll out payroll giving to staff. Ministers could volunteer themselves!

25 July 2016
1. **Background:** Church Mission Society\(^{128}\) was founded in 1799. Most of its founders, including William Wilberforce, were also heavily involved in the campaign to abolish the slave trade. In the year ended 31\(^{st}\) January 2015 we raised voluntary income of £6.28m, out of a total income of £7.49m. We spent £6.63m on charitable activities out of total expenditure of £7.74m.\(^{129}\)

2. **Church Mission Society welcomes the Select Committee's call for evidence.** In particular we welcome their aim that ‘attention on recent issues does not undermine the good work done by many charitable organisations’. We particularly welcome that, given that the pressures on all charities’ sustainability has increased significantly of late as direct result of the inappropriate activities of a very few organisations.

3. As a charity ‘reliant on fundraising income’ we would wish to emphasise that along with the vast majority of charities we have not changed our own carefully considered approach to fundraising, and nor have we needed to. And yet, due in no small part to the media reaction to the shortcomings of a few, we find ourselves under increased pressure and scrutiny.

4. (It is no small irony that elements of the press who have been so keen to see tighter regulations of charities have themselves been so resistant to any tighter regulation of the press. This irony seems lost on the press, however, who do not seem to believe their own shortcomings to be worthy of the kind of regulation they wish to see visited on charities.)

5. We would also point out that it is those very charities that have not broken the norms of good practice in fundraising (namely medium sized charities such as ours; the main offenders being either very small or very large charities) on whom the burden of funding the new Fundraising Regulator will most heavily fall\(^{130}\). A charity that raises 50 times what we raise in charitable donations would only have to pay around 3 times the amount required of us. This seems to us to be an example of regressive taxation which is inherently unjust and will affect to some degree, even if not severely, the sustainability of charities such as ours.

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\(^{128}\) [http://www.churchmissionsociety.org/](http://www.churchmissionsociety.org/)


6. The new rules relating to fundraising have led to an insistence on permission-based communications. This is a good thing in itself, but the default is to assume that permission is withheld rather than granted. As a result there has been a big increase both in refusals to receive any further communications, and in anonymous giving. This latter has the effect of suppressing the very thing that enables charities to fund their work and keep their overheads low, i.e. thanking donors, keeping them loyal and well informed, and encouraging further donations. It is this last point which has been most contentious; however we would argue that such concern is ill founded. It assumes that fundraising is inherently a bad thing, to be prevented rather than encouraged. By contrast we argue that the responsible encouragement of charitable giving is a wholly good thing to be celebrated. The answer is surely to constrain the selling of data and the use of inappropriately aggressive tactics. The current rules only serve to hamstring all charities, and, again, punish the many for the wrongdoings of the few. This feels inherently unjust, and this tendency significantly threatens the sustainability of charities such as ours.

7. Turning to the wider issues with which the Committee invite us to engage we focus first on governance and leadership. With regard to governance we are keenly aware of the increasing demands placed upon Trustees (see for example the Charity Commissioners’ recently released paper CC3 ‘The essential Trustee: what you need to know; what you need to do’). Whilst we absolutely believe in the necessity of highly competent Trustees bodies we have two particular concerns here.

   a. The first is that the recruitment of Trustees is increasingly problematic. Finding people, especially of working age, with both skills and time to devote to this role, given its increasing demands, is a real challenge. That challenge is only compounded by the desire to ensure diversity through the recruitment of BAME candidates.

   b. Second, we are concerned that in the rather febrile prevailing attitude to charities the focus on a paper such as CC3 is almost exclusively on ensuring that Trustees fulfil their fiduciary responsibilities. Whilst not wishing to undervalue the importance of that role, such an approach runs the risk of being excessively risk averse and gives Trustees a role of policing the charity rather than generating, guarding and promoting its strategy and vision. If the sector is to prosper much more emphasis must be placed on these roles.

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8. As far as **leadership** is concerned, we are pleased to note the increased professionalism of the sector over the last twenty years or so. Certainly our experience is that attracting gifted and capable candidates for posts is not a significant challenge, although being based in Oxford certainly helps. We also wish to commend the existence of Charityworks which exists to attract high-calibre graduates into the sector, to provide the sector leaders of the future.

9. We live in a world in general in which **accountability** is stressed more than was formerly the case. We welcome this. Being accountable to supporters not least for the way in which donation income is used is essential to our sustainability. We have recently embarked on developing our own bespoke impact assessment framework. As we receive no statutory funds, there is no direct requirement on us that we do this, but we wish to demonstrate both to ourselves and to our supporters that we are making a difference. In that light we welcome recent moves to include more narrative in annual reports so that such impact can be better demonstrated.

10. At the same time we welcome the recent increased focus on **the management of risk**, not because we wish to be risk-averse, but because the appropriate articulation and management of risk is a key tool in ensuring sustainability.

11. Our own charitable activities have led us to be involved with a number of people launching **social enterprises** of one sort or another. We welcome this modelling of a new form of not-for-profit economics. We believe that such enterprises will be increasingly important in the future. They inevitably blur the lines between the not-for-profit and business sectors, but we believe that government legislation should support and not hinder the incubation of such initiatives.

12. The single biggest threat to our own sustainability would be the removal of the **advancement of religion** as a legitimate charitable aim and purpose. There is enduring pressure from some quarters for this move, which would be immensely damaging not just to us but to the sector as a whole and we **urge the committee specifically to recommend its retention**. There are a number of reasons for doing so.

   a. First it has a very long **provenance** reaching back not just to the Charitable Uses Acts 1601 but to William Langland’s 14thC poem ‘Piers Plowman’ on which the Preamble to the Act draws. Such a tradition should not be lightly discarded.

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132 [http://www.charity-works.co.uk/](http://www.charity-works.co.uk/)

133 (see for example [http://www.beneficgroup.com/pdf/The%20State's%20Agenda%20for%20Charity.pdf](http://www.beneficgroup.com/pdf/The%20State's%20Agenda%20for%20Charity.pdf))
b. Second the advancement of religion constitutes a significant proportion of the sector’s activity. According to CAF, ‘Whilst supported by just 12 per cent of donors, ‘religious causes’ achieves the largest share of donations in terms of total monetary value (14%). This is as result of the typical donation made to religious causes at £20 being much higher than the overall average (£14). This donation level significantly outstrips the typical amounts given to the most popular causes, with medical research and hospitals most commonly receiving donations of £8 and children’s causes of £10.’\(^{134}\)

c. This trend is marked amongst younger Christians who give very significantly more than their peers. According to EAU, ‘Despite living in cash-strapped times millennial Christians [aged between 18 and 37] are extremely generous. A combined total of almost half (47%) give away at least a tenth of their money. Black and Minority Ethnic Christians (BMEs) are markedly more generous – with 60% giving away at least a tenth of their income, compared to 44% of white British young adults.’\(^{135}\) Such tendencies to altruism and generosity should surely be celebrated rather than discouraged.

d. Thirdly, and most importantly, it is vital to see ‘the advancement of religion’ in the broadest possible terms. This perspective is particularly important to us given our roots in the anti-slavery movement. Today people working with Church Mission Society are working inter alia to combat people-trafficking and FGM, promote ecological causes, advance education and medical care as well as plant churches and share the good news of Christ. All this we do under ‘the advancement of religion’ and are glad to do so as all are clear expressions of our fundamental Christian commitment.

13. Finally, and to repeat what we said at the start, we welcome the Committee’s engagement with this issue. It is vital. The charitable sector’s activity is key to the health both of UK society and of the wider world. NCVO, in consultation with ONS, estimates that the gross added value of the voluntary sector in 2011/12 was £11.8 billion, and that the estimated value of the output of volunteers was £23.9 billion\(^{136}\). Those are not sums to be trifled with. It would be immensely welcome if there was much greater emphasis and recognition from government of the huge benefit the sector brings to society, and rather less emphasis on dancing to the tune of an often hostile and unaccountable press.


\(^{136}\) [https://data.ncvo.org.uk/a/almanac14/what-is-the-sectors-contribution-to-the-economy/](https://data.ncvo.org.uk/a/almanac14/what-is-the-sectors-contribution-to-the-economy/)
17 August 2016
Churches’ Legislation Advisory Service — Written evidence (CHA0098)

Executive summary

- The principal purpose of the Churches’ Legislation Advisory Service [CLAS] is to represent to Government our members’ views on issues of secular law as they affect their interests. [1]
- ‘The role and purpose of charities in civic society in England and Wales’ have developed over time to meet the evolving needs of a changing society. [7]
- Charities can be distinguished from (for example) similar services provided by local government by four key differences: altruism, volunteering, flexibility and innovation. [8]
- Community cohesion, civic action and volunteering are interrelated: charitable activity fosters community cohesion by involving donors, teaching volunteers new skills and enlarging their horizons, membership charities bring together people with common interests but from a variety of backgrounds, and services provided by charities meet people’s needs without stigmatising them. [9 & 10]
- The trustees of churches congregations are under increasing pressure from increasing charity regulation and legislation, lack of financial resources, shortage of the necessary skills and, often, an ageing membership, buildings that are often unsuitable and prohibitively expensive to maintain: there are particular pressures in rural areas. [13-17]
- The Churches generally have willingly embraced digital innovation but poor Internet and mobile phone coverage remain a problem, particularly for congregations in remote rural areas, and threaten the widespread adoption of digital payments in place of paper cheques. [19-21]
- Trustees need easily understandable, accurate and authoritative advice; but the Charity Commission is providing less of this. [24]
- The Government’s decision to introduce a standardised ‘look and feel’ across its websites is understandable – but it has not improved either the navigability of individual sites or the quality and range of information available. [25]
- We would urge caution on any major relaxation of the rules on remuneration of trustees. [28]
- Charities must be properly accountable to beneficiaries, donors, and the general public but we are concerned that many charity trustees are largely unaware of their responsibilities under charity law: a proper balance needs to be struck between proper regulation and accountability and making sure that charity trustees are not overburdened – but we are not sure that it has yet been achieved. [29-31]
- Financial pressures mean that long-term viability and/or sustainability is a major issue. [32]
The move to annual funding for services contracted to charities by local authorities has caused financial uncertainties and the bidding process has become increasingly onerous. [33-34]

The primary role of Government should be properly to resource the Charity Commission to do the job expected of it. [37]

We fear that unless the Charity Commission is resourced to introduce phased registration of excepted charities when the exception ends in March 2021, there will be serious administrative problems. [40-42]

As local devolution expands, local government will become more involved in service-delivery by the charity sector but it may lack the in-house expertise to facilitate the process. [43]

Given the way charity law has developed from the Elizabethan Statute through the common law, we doubt whether there is much to be learned from non-UK jurisdictions. [44]

In conclusion, we believe that the resource constraints on the Charity Commission have now become so serious as to call into question its effectiveness and that the Government must ensure that the Commission is properly resourced to do its work. [45]

Who we are

1. The Churches’ Legislation Advisory Service [CLAS] is an ecumenical charity that brings together all the major Churches in the United Kingdom (and, because the umbrella ecumenical bodies are members, many of the smaller Churches as well), together with the United Synagogue. Though we are a body composed of religious organisations our focus is not “religious” as such; rather, our primary purpose is to represent to Government our members’ views on issues of secular law as they affect their interests. Under the terms of its Governing Document, CLAS is chaired by one of the Lords Spiritual: our current Chairman is the Bishop of Derby.

2. We are grateful for the opportunity to respond to the Committee’s Call for Evidence.

**Question 1: The purpose of charities**

*The changing role and purpose of charities*

3. In a sense, the question, ‘What is the role and purpose of charities in civic society in England and Wales?’, is too general to admit of any easy answer. Charities range over such a wide field of activity – from funding major medical research projects to operating soup runs for rough sleepers, from running museums and galleries to funding and delivering overseas development projects – that it is impossible to talk about any kind of overarching
‘role and purpose’ for the sector as a whole. A charitable trust enjoys a status as provided in the Charities Act 2011 because it is an institution:

- which (a) is established for charitable purposes only, and (b) falls to be subject to the control of the High Court in the exercise of its jurisdiction with respect to charities [s 1]; and
- which pursues a charitable purpose as defined in section 3(1) of the Act and is for the public benefit [s 2(1)].

4. When the Statute of Charitable Uses 1601 was enacted, the charitable purposes outlined were these:

Releife of aged impotent and poore people, some for Maintenance of sicke and maymed Souldiers and Marriners, Schooles of Learninge, Free Schooles and Schollers in Universities, some for Repaire of Bridges Portes Havens Causwaiies Churches Seabankes and Highwaies, some for Educacion and prefermente of Orphans, some for or towards Reliefe Stocke or Maintenance of Howses of Correccion, some for Mariages of poore Maides, some for Supportacion Ayde and Helpe of younge tradesmen Handicraftesmen and persons decayed, and others for reliefe or redemption of Prisoners or Captives, and for aide or ease of any poore Inhabitantes concerninge paymente of Fifteenes, setting out of Souldiers and other Taxes.

5. What developed into the four heads of charity enunciated in Pemsel137 – the relief of poverty, the advancement of education, the advancement of religion, and other purposes considered beneficial to the community – were present in embryo; but the Elizabethan statute did not foresee, for example, support for the arts or medical research or, as listed in s 3 of the Charities Act 2011, ‘the advancement of citizenship or community development’, ‘the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity’ or ‘the advancement of animal welfare’.

6. We should also note that there is a fundamental difference between membership charities – a church, say, or a special interest group – and charities that exist primarily to provide services to their external beneficiaries. Though William Temple famously observed that ‘The Church is the only organisation on earth which primarily exists for the benefit of non-members’,138 churches do not have ‘beneficiaries’ in the same sense as Scope or the RNIB have them.

7. In short, ‘the role and purpose of charities in civic society in England and Wales’ have
developed over time to meet the evolving needs of a changing society. Who had heard of
food banks twenty years ago?

What makes charities distinct from other organisations doing similar work?

8. We would suggest that there are four key differences between charitable endeavour and
(for example) similar services provided by local government: *altruism, volunteering, flexibility and innovation.*

- The fact that charities provide services out of a conviction that their provision is a
  moral duty and/or will benefit society as a whole means, for example, that
  charitable organisations often reach the parts of society that governmental
  agencies find it very difficult to reach.

- Many of the charities that provide social services (and, for that matter, environmental charities such as the National Trust) rely very heavily on volunteers – which means that they can deliver the same services far more cost-effectively than can central and local government agencies.

- Because the focus of small, individual charities is often very local, they can respond
  quickly and cost-effectively to local needs. In the case of the Church of England, for
  example, 80,000 volunteers and around 2,700 paid staff help to provide support
  and activities for children, young people and families. Without the volunteers, the
  Church could not do its work.

- It is often possible for a small local charity to test innovative solutions to particular
  problems before those solutions become widely adopted. Circles of Support and
  Accountability, which work to rehabilitate sex offenders and reintegrate them into
  society, are a good example of this. The initiative was started by a Mennonite
  pastor in Canada; and the Lucy Faithful Foundation in Guildford started the first UK
  Circle in 2001. Circles UK is now funded by the Ministry of Justice.

Community cohesion, civic action and volunteering

9. We would suggest that these three are interrelated. In *Making Democracy Work*¹³⁹ Robert
D Putnam and his colleagues argued that part of the difference between the prosperous
North of Italy and the relatively poor South was explained by the fact that Northern Italy's

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history of community guilds, clubs, choral societies and the like had produced greater civic involvement and generated greater social capital, while the agrarian South was less prosperous economically and less democratic because there was less of that kind of social involvement – and the growth of social capital, in turn, fostered mutual trust in a virtuous circle. Putnam’s conclusions have not gone unchallenged; but even one of his critics concedes that ‘Looked at in a very general way, Putnam’s explanations probably contain a good deal of truth – it is hard to deny that he is on to a “civic something” which worked in the North and failed to carry the day in the South’. 140

10. We would claim that charitable activity fosters community cohesion in several ways:

- Involving donors in the work of a particular charity encourages them to look beyond their own concerns to the wider needs of society.

- Voluntary service teaches the volunteers new skills, increases their feelings of self-worth, expands their social networks and (hopefully) makes them more sensitive to the needs of those outside their immediate circles.

- Membership charities bring together people with common interests – but they can also bring together people with quite disparate interests and backgrounds who just happen to share one thing in common with their fellow-members: eg, they are Roman Catholics or model railway enthusiasts or music-lovers.

- Services such as the provision of charity shops mean that people on low incomes can afford the necessities of existence without feeling stigmatised.

11. Perhaps the principal way in which the status of volunteers has changed is that they have had to become more ‘professional’ in the non-pejorative sense of the word. A charity-run café is a simple example: it is, quite properly, obliged to train its volunteers in food safety in order to ensure compliance with the food hygiene regulations.

12. We deal with challenges in our answer to Question 2.

**Question 2: Pressures and opportunities**

**Pressures on Churches as charities**

13. The first major pressure is the huge – and increasing – amount of regulation and legislation that trustees are expected to be aware of and to comply with. This is particularly
heightened for our smaller congregations with few members, most of whom are probably elderly; but it is just as great a problem in larger churches where there is a lot going on, most of it undertaken by volunteers, overseen by other volunteers who happen to be trustees.

14. In many cases the local congregation can suffer from a lack of money with no perceived ability to reduce its ‘operations’: the local community expects ‘the church’ (of whatever denomination) to hold services of worship in its building – weddings, baptisms etc – along with other activities in ancillary accommodation such as the church hall. The members of the congregation tend not to think beyond ‘carrying on as best they can’ with all the attendant issues regarding health and safety, etc. which may be ignored.

15. There is often a shortage of people willing and able to maintain the buildings and deal with the issues mentioned above. There is also an apparent unwillingness for the current 20- to 40-year-old generation to get involved in their local churches beyond being ‘users’. It does not necessarily mean that they are irreligious: rather, that the pressures of a young family and a career often crowd other things out.

16. There are even greater challenges for congregations that occupy listed church buildings. Listing means additional regulation and restrictions on work that can or cannot be done and the greater costs involved. We acknowledge the benefits of VAT recovery under the Listed Places of Worship Grant Scheme: but maintaining a listed building can be prohibitively costly when, for example, the lead stolen from the roof has to be replaced with new lead instead of (for example) terne-coated steel – which is much less likely to be stolen.

17. As to congregations in rural areas, many are very small and may occupy buildings that are both listed, prohibitively expensive to maintain and massively too large for them, with the result that many face issues over their longer-term viability. Their problems are often exacerbated by the sheer physical size of the parish/district/ministerial charge. Falling revenues have led, inevitably, to neighbouring congregations being obliged to share clergy. This has always been the case, for example, in the Methodist Church, in which local churches have always been grouped into circuits and operate under what is known as the ‘circuit plan’; but there has been an increasing tendency to amalgamate rural parishes in the Church of England and the Church in Wales.

Opportunities

18. Generally, there is a measure of goodwill in communities towards their local churches – although churches are probably most commonly seen as somewhere to turn to for social support or as buildings for community use, given that they are sometimes the only
community space in their local area. We would certainly not underestimate or undervalue that goodwill and it often provides opportunities for outreach to the wider community; but tensions can arise when it becomes necessary to sell a church building that has become redundant as a place of worship.

**Question 3: Innovation, especially in ‘the digital arena’**

19. The Churches generally have been very ready to innovate, not least because better and more efficient ways of working have been a necessary consequence of falling numbers and financial stringency. Obvious examples are changing patterns of ministry, with an increasing emphasis on non-stipendiary and lay ministry.

20. As to digital innovation, almost all denominations have invested heavily in digital technology, both for finance and administration and as a tool for mission.

21. One major barrier to digital innovation is poor Internet and mobile phone coverage. Churches in remote rural areas sometimes have no access to either – and little prospect of being connected in the foreseeable future. In that connexion, we should note, if only in passing, the tentative proposal in 2009 by what was then the Payments Council (now Payments UK) to end the cheque-clearing system by 2018. HM Treasury subsequently cancelled the proposal in 2011; and the Coalition Government and the Payments Council together gave an assurance – which we welcomed at the time – that cheques would continue for as long as they were needed. But the fact remains that the use of paper cheques is declining by ten per cent year-on-year and there will inevitably come a point at which the clearing system will become uneconomic on any rational criteria. To replace it by a secure system of digital payments will, in our view, require serious investment in infrastructure, particularly (but not exclusively) in remoter rural areas.

**Questions 4 & 5: Governance and leadership, and the role of trustees**

22. It should be remembered that the primary purposes of a congregation is above all to worship God and to be ‘salt and light’ in the community: Matthew 5:13-14. The qualities required for ‘leadership’ in a secular organisation are not necessarily the same as those that are either appropriate or desirable in a religious community. That said, however, church congregations are charities and their trustees are bound by charity law.

23. For the Churches, part of the problem is that people are called into roles of responsibility usually because they have spiritual or pastoral qualities and these are seen as the qualities most needed for the local church to ‘be Church’ in terms of care for and outreach into its community. With the exception of church treasurers, we do not think that congregations choose/elect the parochial church council/elders/overseers/deacons/property trustees
(or whatever) because they have the sort of skills that other charities might seek in a trustee. Indeed, they might argue that to do so is wrong in principle, because the purpose of those roles is to provide spiritual leadership and pastoral care to the congregation.

24. **What trustees need above all is access to easily understandable and accurate advice.** As the Charity Commission has concentrated its resources more on regulation and less on advice, it has to some extent been left to umbrella bodies such as denominational central secretariats or to regional structures such as synods, dioceses or districts (and to organisations like CLAS) to provide support and information for charity trustees; but these bodies, in turn, are stretched to the limit in terms of personnel and resources – and their priorities are not necessarily those of governance but of mission. In any event, their advice can never carry the same authority as the Commission’s.

25. The Charity Commission’s website contains a lot of helpful information – but in order to access it you need to know of its existence, you need to know how to navigate a website and you need to be undaunted by the sheer volume of information that it contains. In that connexion, while we understand why the Government wanted to establish a consistent ‘look and feel’ for individual departmental websites, we do not think that the move to gov.uk improved either the quality of the information available or its navigability.

26. It should also be remembered that many Churches and other religious organisations are structured differently from many ‘secular’ charities, in that their governance structures are sometimes as much the product of theological conviction as of charity law; and that can sometimes make it hard for them to adapt to wider legislation affecting generic charity trustees or employees. In the case of the Roman Catholic Church, for example, as well as taking into account the requirements of secular law, the Catholic Bishops’ Conference of England and Wales also must observe the canon law of the wider Church.

27. Finally on this point, charities have always been operated by volunteers: indeed, there is a general rule that trustees must not derive personal benefit from their charity unless they are specifically permitted to do so by the terms of their governing document, by the Charity Commission or by the courts. Charities employ staff to do the day-to-day work; but they are still managed, ultimately, by volunteer trustees.

28. The increasing trend for senior charity employees to paid high salaries has attracted a certain amount of public criticism. Not all of it has been either justifiable or even very well informed; but, given that criticism, we would urge caution over any major relaxation of the rules on remuneration of trustees (as distinct from reimbursement of expenses and compensation for loss of earnings etc) in case it should impact adversely on the reputation of the sector.
Question 6: Accountability

29. As to charities ensuring proper accountability to their beneficiaries, their donors, and the general public, the short answer is that they must observe charity law. The fear is, however, that many trustees – in secular as well as religious charities – are largely unaware of the requirements of charity law except in the vaguest, most general terms. We wonder, for example, how many charity trustees have read The essential trustee: if it were more than half of them we would be very surprised indeed.

30. As to possible changes to current arrangements, we can see no simple solutions. The ideal church treasurer, for example, would have an accountancy qualification: many do, but many do not. Equally, it is possibly desirable that at least one member of a charitable trust should have some acquaintance with the basics of charity law. In a very small congregation, however, it may simply be impossible to find trustees that, collectively, can cover the entire range of desirable skills.

31. That said, however, the issue of ‘suitability’ for trusteeship is itself problematical. It would be very unfortunate indeed if trusteeship came to be seen as something which ought only to be done by ‘the sort of people who ought to be trustees’, thereby excluding from consideration church members who might have equally valuable gifts that happened not to include a detailed understanding of charity law and practice. That is not the way church communities are meant to work. We fully understand and accept the need for charities to be accountable: the Cup Trust and Kids Company are two high-profile examples of what can happen when trustees take their collective eye off the ball. However, a proper balance needs to be struck between making sure that charities are properly regulated and accountable and making sure that charity trustees are not overburdened – and we are not sure that this has yet been achieved.

Question 7: Resource management

32. For the Churches, declining membership has an inevitable impact on congregational income; but even those congregations with a stable or growing membership have more members on fixed incomes such as pensions, while their younger members are under far greater financial pressures than before because of rising housing and child-care costs and declining incomes in real terms. The result is that their contributions are not at the level, in real terms, that current 60-somethings contributed when they were 40-somethings.

33. There is also a huge concern for some Churches whose community-focused work has been funded through, say, local authority contracts for social care for the elderly. Facilities have

been extended or staff employed but contracts are now concluded on a year-to-year basis. Commercial contracts have become a worry: they once used to be a guarantee of stability and security.

34. Further, the process of securing local authority contracts or grant funding seems to be increasingly onerous in its demands on church trustees, both in terms of the application process and the subsequent reporting requirements; and this is something that few volunteers are skilled at doing. The Government could help by resourcing local authorities to provide advice and support.

35. There is also anecdotal evidence that some local authorities require charities applying for grants to provide their Charity Commission registration number. This is an insuperable problem for congregations in the excepted denominations whose incomes are below the £100,000 registration threshold: because they are excepted from registering they do not have a charity registration number – and the Regulations do not permit them to register voluntarily in order to obtain one.

**Question 8: Social investment**

36. We have no comment on this, other than to welcome the clarification in the Charities (Protection and Social Investment) Act 2016 of the powers of trustees to make social investments.

**Question 9: The role of the Government**

37. *The primary role of Government should be properly to resource the Charity Commission to do the job expected of it.* That would help make information more accessible, for example by making it easier to speak to someone or quicker to get an e-mail response to a query.

38. The Government could also help by resourcing local authorities to provide advice and support. At the moment, our perception is of the Government happily leaving many elements of social care to the charity sector – which, by and large, does it well – but not providing enough support for the trustees shouldering the responsibility of providing it.

39. As to the role of the Charity Commission, the relationship between the Commission and the sector has changed as it has concentrated less on advice and more on regulation. In a sense, that has been an inevitable consequence of its severe financial constraints over the last five years; however, it has meant that, as we suggest above, trustees have had to rely more on unofficial bodies for advice.

**A specific problem: registering excepted charities**
40. There is a specific problem in relation to the Church charities. We have already mentioned in passing that congregations of some of the major denominations – the various Baptist Churches, the Church in Wales, the Church of England, the Congregational and Independent Evangelical Churches, the Methodist Church, the Presbyterian Church in Wales, the Quakers, the Union of Welsh Independents, the Unitarians and the United Reformed Church – are excepted from registering with the Charity Commission if their annual income is below £100,000. This means that they cannot register even if they wish to do so.

41. The exception from registration is due to come to an end on 31 March 2021, at which point (unless there is a further extension) every excepted church congregation that is a charity in its own right will have to register. Over the next five years, some of the larger excepted congregations will be obliged to register as their income rises to exceed the £100,000 threshold: nevertheless, a considerable number of smaller congregations will never reach that trigger-point.

42. We fear that there could be an avalanche of applications for registration in April 2021; and that could create considerable administrative difficulties for the Charity Commission. We therefore feel that some kind of phased system of registration for the current excepted charities is absolutely crucial. When the Charity Commission for Northern Ireland started registering charities in its jurisdiction it did so by calling forward charities in a series of orderly tranches; and that seems to have worked well. In our view, the Charity Commission for England and Wales needs to do the same – and if it has insufficient resources to enable it to do so, then the Government must resource it properly to do its job.

The likely impact of greater local devolution on the sector

43. Our major fears are that, inasmuch as the charity sector provides services to local authorities, the sector as a whole will not have the resources to cope with greater local devolution – and that the Charity Commission, similarly, will be under even greater pressure than before. The major challenge is that, as local devolution expands, local government will become more involved in service-delivery by the charity sector but that, at the same time, there may be a shortage of people within local government who have

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142 Charities (Exception from Registration) Regulations 1996. In addition, where two or more Christian denominations work together as a Local Ecumenical Partnership [LEP] under a formal agreement, if any of the member Churches in the LEP is excepted then the LEP as a whole is excepted.

143 Charities (Exception from Registration) Regulations 1996, as amended by the Charities (Exception from Registration) (Amendment) Regulations 2014.
the necessary detailed knowledge of the way that the sector works in order to facilitate the process.

**Question 10: Lessons from other sectors and countries**

44. Given that charity law in the UK has developed largely through the common law building on the Statute of Charitable Uses 1601, it is difficult to see what could be learned from non-UK jurisdictions (though it is interesting to note that in Ireland – which, of course, is a common-law jurisdiction – the Charities Act 2009 bears a strong family resemblance to the three UK Charities Acts). As to Scotland and Northern Ireland, the problem about learning from the approaches of the CCNI and the OSCR, however praiseworthy their work, is one of scale: England and Wales, together, are just so much bigger than Northern Ireland and Scotland individually that it is almost impossible to read across from their experiences. That said, however, we have already noted the success of the CCNI in phasing in registration and would like to see a properly resourced, phased registration system for excepted charities in England and Wales.

**Conclusion**

45. A recurring theme in this submission – and one for which we make no apology – is the impact of budget cuts on the work of the Charity Commission. We are not so naïve as to believe that every problem in Government can be solved simply by throwing public money at it; however, we believe that the Commission’s resource constraints have now become so serious as to call into question its effectiveness.

*5 September 2016*
About Citizens Advice

- Citizens Advice is a national charity that empowers people to find a way forward by providing free, confidential and impartial support.
- Last year 2.7 million people with 6.2 million issues were helped directly through Citizens Advice services and there were 36 million visits to our online advice.
- Using a Treasury approved model, we know that we saved Government and public services at least £361 million in 2015/16. We estimate our total social and economic value to society to be £2 billion.

Overview

Charities, such as Citizens Advice, continue to deliver extensive social value through empowering people to find a way forward and our investment in volunteers.

However, the role of charities is changing. We are increasingly relied upon to deliver essential public services, while at the same time adapting to the pressures caused by public spending reductions, increasing demand and the changing expectations of our clients.

The reduction of core grants and the increasingly fragmented funding landscape is casting a shadow over the future sustainability of some charities. Alongside this, some funders are prioritising volume and cost over the quality and outcomes of services delivered, which is leading to worse results for the public.

It's essential for the sustainability of the charity sector that we revisit and reinforce what good commissioning looks like and incentivise charities to innovate and promote best practice.

There have been previous attempts to address commissioning processes through various Government initiatives such as the National Audit Office Successful Commissioning Toolkit, the Compact, the introduction of the Social Value Act (2013) and the establishment of the Commissioning Academy. However, given the significant evolution of the role of charities in recent years, we recommend a comprehensive review to provide an updated illustration of what best practice commissioning looks like.

Without a revised commissioning framework that’s clearly owned at Ministerial level and championed throughout Whitehall, the sustainability of the charity sector is at risk of losing touch with its fundamental principles and voluntary delivery model.

Headlines

- **Charities must adapt and innovate to meet clients’ changing expectations and needs.** Over the last ten years, the economy, society and technology have changed dramatically, and as a result Citizens Advice’s clients’ needs and expectations have changed too. We have seen this reflected in the nature of advice sought and the way
in which people access our advice. We continue to adapt to provide the best service possible to as many clients as possible, for example by providing advice online, through webchat and over the phone, as well as in person.

• **Funding reductions are placing significant pressure on charities.** Reductions in public spending has also put the Citizens Advice network under pressure. The picture varies for each of the 300 local Citizens Advice across England and Wales. However, we have broadly been resilient due to our ability to identify new national and local funding streams, collaborate to win contracts that span across localities, and demonstrate the value and impact of our services.

• **The role of charities is changing.** Charities, such as Citizens Advice, continue to deliver extensive value to society through empowering people to find a way forward and our investment in our highly trained volunteers. The role of charities is changing in the context of public spending reductions, as we are relied on to deliver essential public services.

• **Outcomes must be paramount.** Some funders are prioritising the volume of outputs over the outcomes of services delivered. Citizens Advice has sophisticated management approaches in place to make sure we can demonstrate that we are providing high quality advice to our clients regardless of where they live. It is essential that charities can demonstrate the outcomes they’re achieving, and also that under pressure local authorities prioritise these.

  • **Demonstrating our impact is crucial to our sustainability.** Understanding and demonstrating our impact on individuals, public services and wider society is an essential way we can be held to account by our funders, and also allow us to justify future investment.

  • **It is important to revisit and reinforce what good commissioning looks like.** The fragmentation of the funding landscape is a major risk to the financial sustainability of charities. In a context where commissioners keep changing, it’s important to revisit and reinforce the concept of good commissioning - this is key to the delivery of quality services.

  • **Innovation can be blocked by commissioning requirements.** There are no barriers to innovation that link directly to charitable status. Digital innovation at Citizens Advice has improved efficiency internally and has increased client satisfaction. However, barriers can exist due to commissioning requirements or the financial risk of investing in untested processes.

  • **There are considerable barriers to social investments.** Social investment mechanisms haven’t been able to fulfil their potential due to considerable barriers to their widespread use and suitability.

The purpose of charities
1. How has the role and purpose of charities in civic society in England and Wales changed?

1.1 Charities such as Citizens Advice have always been at the heart of communities, delivering services to support their beneficiaries. However, increasingly, we’re seeing the public sector retracting from the provision of support to local communities. Consequently, greater pressure is being placed on charities as commissioners look to the sector to deliver services that once existed. It’s vital that local communities continue to receive the support they require, however, many charities find that there is not always funding available to pick up these services. This creates its own challenges, with the burden of support being placed on the charity sector during a climate of reductions in its own funding.

1.2 A recent example is the requirement for local authorities to deliver services under the Care Act. Local Citizens Advice offices have seen a trend in advice service commissioners including Care Act requirements within tender specifications to such an extent that this was a requirement within 2/3 of all specifications we saw in 2015/16.

1.3 The provision of services that were previously delivered by the state has also resulted in the independence of Citizens Advice being open to challenge. There is increasingly the perception by beneficiaries that Citizens Advice is not a charity but a state run body.

What makes them distinct from other organisations doing similar work?

1.4 In addition to charities, the private sector is also taking part in the commissioning of services from the public sector both locally and nationally. For some large-scale public sector commissioning, such as the Work Programme, the private sector has been best placed to take on the risk and uncertainty of funding agreements based on payment by results.

1.5 Despite the establishment of innovative organisational models such as Community Interest Companies, there remains a clear distinction between charitable organisations and others working in the same area. Charities such as Citizens Advice exist for a clear social purpose, which is an ethos at the core of how we assess any opportunity to deliver services in the public sector space.

What role can charities play in community cohesion and civic action?

1.6 Citizens Advice has a unique and extensive knowledge of issues affecting people on a national scale and within specific localities. We’re able to track trends, identify problems and collate data in order to raise issues at a local or national strategic level. For example, Citizens Advice provided evidence to the Business, Innovation and Skills Select Committee’s inquiry on payday loans and supported work to ultimately change the regulations on the way lenders operate.

1.7 Charities such as Citizens Advice also provide social value to the communities in which they work through the way we deliver our services. Through volunteering and community engagement, we delivered a minimum return of £98m in wider economic and social benefits.
in 2015/16. By acting as a conduit between and across communities, charities can increase resilience in diverse areas and link private sector businesses to clients it finds hard to contact, improving the effectiveness of the market for all.

1.8 The role of volunteering adds significantly to community cohesion and provides a range of benefits. Citizens Advice offers an array of volunteering opportunities which provide quality training, to ensure our clients receive high quality advice, and valuable work experience enabling people to prepare themselves for the job market. Many of our volunteers are drawn from hard to reach groups, who then benefit from greater employability as a result. 90% of unemployed volunteers said that volunteering with Citizens Advice is helping them to move into employment or education/training, and over half of our retired volunteers say they feel less at risk of social isolation.

1.9 However, volunteering isn’t just a route into work, it can help to meet wide ranging client need - for example, the provision of culturally and linguistically appropriate services in a range of diverse areas with a mix of demographic groups - and can lead to improved confidence and independence.

How does the sector benefit from volunteering?

1.10 We wouldn’t be able to help as many people as we do without our network of 23,000 volunteers who form an integral part of our service delivery and governance. They are over 70% of our workforce, last year contributing an estimated £114m worth of volunteering hours.

1.11 The government should recognise the investment that organisations such as Citizens Advice puts into their volunteers to ensure our clients receive high quality advice, and the impact this can have on supporting people into work. While volunteers often provide excellent value and increase capacity substantially to deal with demand, there are instances where this investment is of less benefit to the charity because a volunteer may leave after a short period of time to move into employment or education.

1.12 Charities must respond to the changing needs, motivations and diversity of volunteers. The numbers aren’t going up and while we are generally seeing an increase in young people coming forward there is more to do to attract disabled and those from black and minority ethnic communities. Charities cannot become complacent, because other public services - like libraries - are moving to volunteering delivery model.

2. What are the main pressures faced by charities, and what impact have these had?

2.1 Over the last ten years, the economy, society and technology have changed dramatically and as a result our clients’ needs and expectations have changed too. We have been through a financial crisis, the deepest recession in the post war period, several years of muted recovery and ongoing austerity to rebalance the public finances. We have also seen a continued transition to online markets and the introduction of ‘digital by default’ public services. And we are approaching the point where mobile phones and access to the internet are becoming essential services.
2.2 At Citizens Advice we have seen this reflected in the nature of advice sought. This has included a fall in consumer credit debt issues, but a rise in the number of households falling behind on bills, such as rent, energy bills, water and council tax, now the biggest single debt issue we deal with. Many of these have more serious consequences for those struggling to keep up, including eviction, disconnection and court hearings. We also saw a sudden explosion in high-cost, short-term credit ‘payday lending’ issues, before new regulations and a price cap on interest were introduced and the numbers fell. The plethora and complexity of different welfare reform measures has meant that advice on benefits and tax credits has now overtaken debt as our main advice area. With the introduction and roll-out of Universal Credit replacing six benefits, we are already helping tens of thousands of people make the transition, sort out problems and manage a wholly new benefit. With 4.5 million people working in insecure jobs, we are seeing new issues with agency workers, maternity rights and the difficulties of balancing variable income with financial commitments.

2.3 In addition to changing client needs, we have also seen our clients’ expectations evolve. Last year we had 36 million visits to our website, and this number continues to grow year on year. Traditionally we are known as a face to face advice charity, yet we now give as much information and advice over the phone, by e-mail and through webchat combined as we do in person through our high-street presence. Our focus has also progressed to helping to educate and empower our clients, as well as helping with their immediate advice needs. We have invested in helping improve our clients financial capability, as well as dealing with their debts. We empower clients to find the best deals for their energy and support on accessing help to insulate their homes. With the rise of digital by default services, then we assist people to get online and manage benefits and essential services online.

2.4 This has created new challenges for our service, but we have committed to supporting the provision of high quality advice through training and support for our staff and volunteers on new and emerging issues. Through investing in our advice content, to ensure we are up to speed with latest developments and to ensure that our advice is intuitive and practical. We also look to learn from one another across our network, learning from pilots and evaluation, building on examples of local success and helping those dealing with change and uncertainty.

2.5 Reductions in public spending have produced challenges for service delivery and delivery models. From a Citizens Advice perspective, we have seen thirteen local Citizens Advice showing a local authority funding reduction of more than 30% in 2016/17. Fourteen local Citizens Advice have noted concerns with respect to their future local authority income. There are also eleven local authorities that do not currently fund any local Citizens Advice.

2.6 Citizens Advice is reliant on local authority funding, however, as further efficiencies are sought and less funding is available, it becomes increasingly challenging to maintain our valuable service. Unfortunately, not all local authorities recognise the practical local support and savings that our service delivers, instead considering us as a “nice to have”.

2.7 Citizens Advice is a trusted organisation in communities across England and Wales because it focuses on the quality of the services delivered to clients. Client outcomes must be paramount. However some funders are prioritising volume outputs over the outcomes of services delivered. Citizens Advice has sophisticated management approaches in place to
assure and demonstrate we are providing high quality advice by recording client outcomes and experience of the service they received.

2.8 It is essential that charities can demonstrate the outcomes they’re achieving, and also that under pressure local authorities prioritise these. To that end we have also invested in our impact work, demonstrating that client outcomes are not just problems solved, but our work helps to improve health and wellbeing, restore personal and family relationships, give confidence at work and in helping to find work, and move forward with life. Using HM Treasury approved cost benefit models, we are able to show that the Citizens Advice service has a positive return for both the exchequer fiscally and in terms of wider social value.

2.9 These funding scenarios and challenges are very likely to be mirrored more widely across the charity sector.

What opportunities do charities have in the current environment?

2.10 There are greater opportunities for charities to work collaboratively to support local delivery of services that need to be improved or that address complex need. For example, as Government services make the change to digital by default, we have carried out a range of assisted digital initiatives to help our clients access online Government tools and to help them interact with other vital public services.

Innovation

3. How do charities seek to innovate, particularly in the digital arena?

3.1 Citizens Advice has transformed its approach to digital over the past four years, and is now producing sector-leading services and content. This has involved a big shift, both in working practices, for example in moving to agile development and content design, and in internal capability and skills. We’ve been helped a lot in this by the transparency of the Government Digital Service in publishing its work and thinking through its blog, and by getting involved in conversations with the digital and technology community, for example by going to digital meet-ups and building informal links.

3.2 This digital innovation has resulted in much higher internal and external user satisfaction, and large growth in use of our digital services by our clients. It’s improved efficiency internally. It’s also prompted wider changes to our approach in designing services to make this a more iterative process that involves continual testing and refinement.

3.3 The shift to a modern technology approach has required investment from our reserves, to cover double-running of services while we moved on from traditional approaches and suppliers, but has significantly reduced ongoing operating costs.

3.4 More widely, and in part informed by our digital innovation, we’ve moved towards a much more iterative approach to innovation and service design: essentially crowdsourcing ideas for improvements, facilitating them being tested and evaluated in a range of locations
and contexts, with knowledge and practice then being shared by peers. This has resulted in much greater ownership and flexibility by those delivering services.

**What more could be done to promote innovation, and by whom?**

3.5 A series of innovation funds could be provided across the sector in order to promote new practice (small scale grants not expected to be repaid), support fledgling ideas (a mix of grant and loan funding) and help scale working ideas (investment based upon evidenced impact).

**What barriers are there to being innovative?**

3.6 There are no barriers to our changing approach that link directly to our charitable status.

3.7 Our Trustee Board has been hugely supportive of this change and included some Trustees with considerable current commercial experience in digital and technology areas. The biggest challenges have all been cultural - ensuring that people are comfortable with new digital approaches, particularly where these involve services that touch on sensitive data or issues, and managing change effectively.

3.8 Our view is that barriers to innovation, particularly around digital, are almost entirely cultural within the sector. There are sometimes wider shaping factors, such as commissioners focusing on process rather than outcomes or requiring needless levels of detail in reporting, or confusion about data protection requirements and what to look for when deciding whether a product is secure, but these are second-order in importance.

3.9 We do recognise however, that barriers can and do exist for some organisations. Charities must innovate, but face the difficult choice of using limited reserves to invest in new offers. Often the choice is stark, to stop delivering existing services to fund as yet unproven new services. As a result, charity Trustees are often in an impossible position; they have to invest reserves in innovative projects to evolve their organisation and maintain its relevance, whilst also meeting their financial safeguarding obligations.

3.10 There is no shortage of ideas and interesting projects but many fail to bridge the gap between front line delivery plans and commissioners/ funders. This is partly due to a lack of support and training available to charities on how to methodically take their ideas forward and build investable propositions. Additional resources for a broad, sector wide programme of support could help address this issue.

**Governance and leadership**

**4. What skills are required to lead and manage a charity?**

4.1 Charity Trustees and managers need a range of skills at least as broad as those required in other sectors, and arguably broader. We look for:

- A strong personal commitment to the goals and values of Citizens Advice.
Citizens Advice — Written evidence (CHA0177)

- A good grasp of the charity’s structure and internal dynamics, as a federation of independent charities coordinated by a national charity.
- The ability to contribute effectively - our Trustees and senior managers are very clear that their role is to lead the charity, and take responsibility for making it successful.
- Ability to challenge in a constructive way, both internally and externally. Our Trustee Board is proactive in testing the plans and assumptions of the Executive Team, but always with the goal of providing a better service for our clients. Our leadership team will also challenge external organisations to change policies or practices, but always in such a way as to maximise the likelihood of change.
- Technical expertise - for example, our Trustee Board includes trustees with expertise in finances, service delivery, human resources, technology, equality and diversity.

How can these skills be gained?

4.2 All our senior leaders, paid and unpaid, are recruited through open, competitive routes, which always include at least one interview. The recruitment process is designed to test applicants experience and skills against the requirements of the specific role. Open, competitive recruitment gives us the opportunity to attract candidates with a wide range of skills, experience and sector knowledge.

What support exists to develop these skills within the charitable sector?

4.3 We support our paid senior leaders in several ways, including development plans, individual and team training inputs, feedback mechanisms, peer support, continuous professional development and other ways.

4.4 Development for our Trustees is more challenging - they are volunteers who spend only limited time with us, and have many other commitments. However, we use “away-days” as opportunities for the Board to reflect on its own performance, and to identify opportunities for individual and team development.

5. What role should trustees play in the performance and effectiveness of a charity?

5.1 It’s essential that Trustees recognise their overarching responsibility for the charity. The relationship between the Trustee Board and the Chief Executive (and senior management team) is critical. If the relationship is too distant, the Board may become remote from both the strategic and practical challenges which the charity faces. If the relationship is too close, the Board lose its ability to present constructive challenge. In Citizens Advice we keep this relationship under constant review, and the Chair and Chief Executive, and their colleagues on the Board and the Executive Team, take great care to make sure it is a healthy one.

How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

5.2 A time limit on terms of office for Trustees, written into governing documents, is a useful mechanism to make sure the Board, and the relationship, stays fresh. Although we
historically used a process for electing some Trustees from within the Citizens Advice service, we ended this practice several years ago. Although an election process may identify Trustees with some expertise in an aspect of a charity’s operations, it is not well-suited to identifying people with the skills, experience and breadth of vision needed to provide strategic leadership.

5.3 In order for Trustees to add the greatest value, it is beneficial if they represent a diverse mix of skills, backgrounds, knowledge and experience. In order to achieve this, they need access to good practice support and materials to fully understand their role and responsibilities.

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

6.1 We have a responsibility and are committed to understanding our value and the difference we make to communities across England and Wales. Understanding what we achieve is essential to being effective, making best use of resources and meeting client needs. Given our scale, it’s vital we understand not just what works, but what works for whom and in what circumstances.

6.2 Our management approaches ensure we understand our performance and the quality of our advice, in order to evaluate and improve the services we deliver to our clients. And it also means that we can demonstrate that we’re providing high quality advice to our clients to our funders, by providing them with evidence of the outcomes we achieve.

6.3 Another way that we hold ourselves accountable is by understanding and demonstrating our impact. We undertake research to understand if our support makes a difference - we know 2 in every 3 clients have their problem solved. We also produce an impact report that clearly lays out why we’re needed, what we deliver, and the impact this has.

6.4 It’s right that people want to know that we’re providing value for money - and our approach to understanding this needs to be credible, proportionate to what we deliver and appropriate for our clients/ service delivery. It also needs to be terms anyone can understand. We report our financial value to society in clear, simple terms, explaining what we generate in return for each pound invested. We only put a value on what we can firmly evidence, and produce a full technical annex to explain our workings.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

7.1 There has been a fragmentation of the funding landscape, which has resulted in a move away from a model where organisations may have received a local grant that was then topped up by 5 - 7 funded activities, towards a zero or 40% grant with 17 - 25
supplementary grant applications in order to maintain levels of funding. The commissioning process involved in this new model poses a number of challenges to the financial sustainability of charities.

7.2 At a practical level, this can lead to difficulties from a personnel perspective, as leadership teams could spend all their time completing grant applications. Simultaneously, we’ve witnessed a loss of experienced staff within commissioning bodies - the knowledge of how to run commissioning processes well has been greatly reduced by local government efficiency measures. This can result in less effective commissioning. For example, we’ve experienced regular misinterpretation of procurement regulations, making the process more onerous and disproportionately impacting smaller organisations who tend to have less capacity.

7.3 There is also widespread uncertainty about future commissioning processes, regional, local and national structures which are still in development, making it difficult to long-term plan.

7.4 In some areas, financial sustainability is also undermined by commissioning processes that are designed for efficiency from the centre and that do not consider local user needs or the “survivability” of the frontline delivery organisations.

How can these challenges be overcome?

7.5 A better level of understanding of the whole commissioning process from both the charity sector and commissioning functions within the local authorities is required to address these challenges. It’s also vital to fully understand the communities in which we are working so proportionate responses can then be delivered to provide the best value local delivery solutions.

7.6 Clear guidance from central government on the correct interpretation and application of commissioning and procurement processes would be a useful tool in achieving this.

How can best practice and information be shared across the sector?

7.7 Good commissioning is key to ending up with good services. In a context where commissioners keep changing, it’s important to revisit and reinforce the concept of good commissioning. Focus should be placed on establishing and communicating a clear plan of work and support, developed with public and charity sector.

7.8 Best practice and knowledge sharing could be encouraged through publicly financed peer to peer learning programmes.

7.9 Increased incentives for collaborative working should be provided. Collaboration is regularly a requirement in tenders, and is often the best approach to provide joined up solutions that reduce duplication. Nearly half of all tenders analysed by Citizens Advice required evidence of being able to manage consortiums or partnerships as part of the
delivery solution. However, greater support is required across the sector to do this in the best possible way.

What are the benefits and challenges of funding for charities being derived from commercial contracts?

7.10 Charities can benefit from working with commercial organisations who employ different skill sets, approaches and capabilities. This is an opportunity to experience different working practices and to learn from them.

7.11 However, a number of practical challenges exist around commercial contracts including:

- The expectation that charities will underwrite the cost and a reluctance to pay FCR which means contracts are unviable.
- Poor payment terms.
- The passing of risk down a supply chain.
- The use of call-off contracts which don’t guarantee any work or funding. These can become difficult to resource and budget for.
- A lack of understanding about charity business models, especially regarding volunteers. There can be an expectation that volunteers are a ‘free’ resource, when in fact, considerable resource is needed to support and train volunteers to a high standard.
- Inappropriate contracts that do not reflect the head agreement and a subsequent unwillingness to negotiate terms.
- A lack of parity. A perception that charities will be grateful for any funding and will accept the terms that go with it.

Social investment

8. What is the potential of social investment and social impact bonds?

8.1 Social investment has great but as yet unrealised potential. While social investment and social impact bonds should never be used as a full replacement for other forms of funding, they have the potential to channel funding into projects that otherwise would go unfunded and undelivered. They also can inspire new funders to invest in social projects that they otherwise might not explored.

8.2 However, to date, the network of organisations set up to establish the market for social investment have so far failed to:

- increase access by large charities nor have they increased the number of small organisations achieving scale.
- maintain delivery of services which are under pressure once significant subsidy for investors is removed.
- de-risk the transfer of services from the public to the charitable sector.
- stimulate innovation in service delivery. They have more often been used to transfer services and teams off the public balance book.
What are barriers to fulfilling their potential?

8.3 As it stands, social investment mechanisms haven’t been able to capitalise on their potential, and there are considerable barriers to their widespread use and suitability in certain areas.

8.4 For example, the upfront resource required to develop a social impact bond can be disproportionate to its outcome; the level of monitoring and evidence stipulated within contracts can also be disproportionate or require significant ongoing resource, and the payout to an investor rather than to the organisation that has delivered the intervention can be unsatisfactory. There is also the risk of investing where an outcome can be more easily demonstrated or happens within a particular time-scale, rather than considering funding early intervention or preventative services. For interventions that target complex needs (such as local Citizens Advice) and where ‘success’ can vary depending on circumstance and ongoing need, developing an investment model that suits this scenario can be challenging.

8.5 Further examples of barriers to the successful use of social investment include:

- A lack of understanding of frontline delivery within the funding and commissioning organisations.
- A lack of capability in financial planning within the charitable sector.
- A lack of support investment to de-risk innovation for leadership teams and boards.
- A lack of capacity within an already “efficient” sector, those with great ideas are already in charge of multiple projects and no resources exist to back fill their current roles and free them to innovate.

30 September 2016
We wish to contribute to the Committee’s review of charities. Citizens Advice Newcastle is a local charity, established in 1939, providing free, confidential and independent advice to people who live or work in the city. We currently have 19 paid staff and over 50 active volunteers who give up their time willingly to help people with their problems.

Each year we advise around 10,000 people, with approximately 30,000 different problems. We are an independent local charity and not for profit limited company, with a board of 13 trustees. We are part of the national Citizens Advice service, and work in close contact with our colleagues in the region.

We would like to address some of your specific questions:

1. **How has our role changed in recent years?** - we are regarded as part of the welfare state. Many clients, funders, and indeed the general public do not think we are a charity, but are part of central or local government. Increasingly we are expected to provide services which were previously provided by the state, particularly job centres and local tax offices. This is compounded by many government departments, particularly HMRC and the DWP, specifically advising people to “contact your local Citizens Advice” service for assistance, on their letters and websites. Similarly, every day we help lots of clients referred to us by their social worker, housing provider or GP.

2. **What role do we play in community cohesion and civic action?** - we work with some of the most marginalised people in our local community. Our advice keeps people in their homes and avoids homelessness, it keeps families together and children out of state care, it enables people to live independently in their own homes with minimal reliance on the state, it keeps people in jobs, out of debt, out of hospital, out of court, and out of prison. All our advice is given in the best interests of our individual clients, and we enable them to make their own decisions. We are non-judgmental, but we always advise people to live within the law. We seek to tackle the problems caused by poverty, ill-health, disability, discrimination and injustice. We actively campaign on the key issues facing our clients, using evidence from our casework. We are a trusted charity, with a long and proud track record of achievement. Many of our volunteers use their training and experience with us to go on to further education, training and employment. We have a special arrangement with the local Job Centre to take on unemployed people as work experience trainees, and 80% of them have found paid jobs as a direct consequence of their placement with us.
3. **What are the main pressures facing our charity?** - Sustainability is our core issue. While demand for our services increases year-on-year, our core funding is diminishing all the time. This year Newcastle City Council cut our funding by 60%, (it was £329,000 in 2010 – 11, and is now £114,000 in 2016 - 17) and their funding for 2017 – 18 remains uncertain. Our biggest single source of funding, £307,000 p.a. is now our sub contract with Citizens Advice for the Money Advice Service Debt Advice Project (MASDAP). However this contract is due to end next year, and there are no guarantees of it being extended or replaced. We are increasingly reliant on short term, project funding. This is restricted to a particular geographical area or activity, so does little to contribute to the charity’s general running costs.

4. **Funding Sources** - We are finding it increasingly difficult to secure alternative funding. Citizens Advice does not fit easily into any one category, e.g. only supporting children or only people with cancer, and so we regularly have our funding applications rejected because we “do not have an exact fit” with the funding criteria. As already stated, many funders do not regard us as a charity, and some, such as the Greggs Foundation, have told us that they specifically do not fund Citizens Advice.

5. **How are we seeking to innovate, particularly in the digital arena?** All of our advice services depend heavily on ICT. Increasingly our clients come to us because they struggle with technology, particularly on-line application forms. So, all of our advisors need to be able to use a computer for training, access to our advice database, and client case recording. We provide advice face-to-face, by telephone, and now by e-mail and webchat. We are part of a national Citizens Advice pilot project for e-mail and webchat advice, and it is working very well indeed. Clients like our instant responses, and volunteers like responding to the challenge of giving speedy advice on a huge range of different subject areas. We have received £7000 from Citizens Advice as a contribution to the costs of running the service 9.00 – 5.00, Monday – Friday. So, again we are “subsidising” this service from our core local funding. This is not sustainable beyond April next year when the pilot project ends, and so all the good work, innovation and experience will be lost.

We have recently relocated our offices to City Library in the heart of Newcastle, to cut costs and improve public access to our services. Our partnership with Council staff here enables us all to work closely together to provide integrated advice and information services, and support people to become confident in using ICT and enhance digital inclusion. We are confident that this gives us huge potential for further innovation in joint training, promotional events, and targeted work with “hard to reach” clients.
6. **What barriers are there to being innovative?** The core barrier is funding uncertainty. As stated earlier our core funding is now insecure. To innovate, you need to have continuity of staff, premises, and other overheads. Various funders are interested in new, innovative projects. However, few are interested in contributing to our charity’s core costs, and to keeping our services running here day-to-day. We know that face-to-face advice is not innovative, but it is very often the most cost efficient and effective method of helping people with their problems, particularly those who are very vulnerable.

7. **What is the potential of social investment and social impact bonds?** - so far none at all, nor likely to be in the foreseeable future because we do not easily fit the criteria for this kind of funding: repayment of any loans cannot be guaranteed because we do not charge for our services, our three year funding projections are very uncertain, and we have no capital assets to offset against any borrowing. Once again we do not easily fit with the funding criteria for social investment agencies.

5 September 2016
1. This evidence focuses on threats to the independence of the voluntary sector, which are undermining its ability to carry out its important, distinctive role. Civil Exchange, an independent think tank, has been reporting on the situation since 2011, for four years working with the Panel on the Independence of the Voluntary Sector which was initiated and funded by the Baring Foundation. Our most recent evaluation, *Independence in Question: the voluntary sector in 2016*, concludes that the threats have been increasing over the last 5 years.

**The purpose of charities**

**A distinctive role that adds social value**

2. It is true that charities are neither autonomous nor unique in how they work. Voluntary sector bodies, including charities, often work closely with the state and can have close relationships with the private sector. Charities can also offer the same services, sometimes under contract to either the state or companies. Many operate as businesses and some sell services to make money. Voluntary, public and private organisations also share many qualities: many have a strong mission and clear values and many companies have a social as well as financial purpose.

3. However, charitable activity *is* distinctive – governance is undertaken in pursuit of mission and values, not profit, and voluntary organisations only exist because they harness and generate non-financial, *social* value. Many charities rely on volunteers both to govern them and to help keep them running. Donations are essential to most if not all voluntary bodies. Through many of their activities, including the provision of mutual support and entertainment, they are both supported by and also strengthen different communities, creating vital social capital and contributing to community cohesion and health.

4. Furthermore, through the expression of diverse views, voluntary activity acts as a critical counterbalance to the power of both the state and the corporate sector, enabling diverse people and perspectives to be expressed and reflected in public policy and services and helping to create a social environment in which everyone can thrive.

5. The independence of the voluntary sector underpins these qualities, enabling it to pursue a mission that is determined by volunteers, to speak out with an independent voice and to act freely and innovatively to deliver its mission.

**A contract culture has eroded this distinctiveness**

6. But increasingly the sector is being seen as interchangeable with the private and public sector, largely because of the growth in contracts with the state over the last decade. Although only a percentage of the voluntary sector receives this funding, the change has been influential on wider culture.

7. There has been an increasing focus on making charities more like businesses throughout the sector, partly so that they compete with them for contracts, with more professional staff and fewer volunteers and a greater emphasis on commercial disciplines. This brings important strengths but there are also pitfalls. It has also become a commonplace for
sector leaders to demonstrate the significance of the sector to those outside in terms of its financial turnover and number of paid staff, rather than in terms of the supporters, activists and volunteers, which are in fact its most distinctive feature and source of strength.

**A view that charities should be seen, not heard**

8. At the same time, a view is beginning to take hold amongst some politicians and commentators that charities should be a delivery agent only that should be seen but not heard. This view was reflected by Gwythian Prins, a Board member of Charity Commission, who said charities should “stick to the knitting.”\(^{144}\) and by the then Justice Secretary, Chris Grayling, in 2014 who said that “I disagree strongly with the campaigning side.”\(^{145}\) Indeed, the voluntary sector is increasingly being characterized as a vested interest, rather than a source of independent knowledge and expertise that should provide alternative viewpoints in public debate and policy development, championing unpopular causes and speaking up for people whose voices are not normally heard. An example of this is the influential Institute of Economic Affairs report, *Sock Puppets: How the Government lobbies itself and Why*, which argues that charities should not be funded by the state as they will only lobby for more government, changes in policy and regulation.

**Threats to the independent voice of the sector**

9. As a result, the legitimate voice of an independent voluntary sector is increasingly coming under direct challenge. Examples include:

- In 2014, the Government introduced the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act (or so-called Lobbying Act), a law that curtailed the ability of voluntary organisations to campaign before an election. After much protest, the law was slightly watered down by Parliament. However, it still, according to the independent Commission on Civil Society and Democratic Engagement, “had a negative impact on charities and campaign groups speaking out on legitimate issues ahead of the [General] Election [of 2015].”\(^{144}\)

- “Gagging clauses” and “no advocacy” conditions have been included in many government contracts. Gagging clauses were included in Work Programme contracts, for example, and “no advocacy” conditions have been included in contracts for services to refugees and to women.

- “No advocacy” clauses are appearing in grant agreements. In 2015, the Department of Communities and Local Government introduced a “no advocacy” clause in its grants, citing the IEA *Sock Puppet* report. The Tampon Tax Fund for women’s causes announced later that year also includes an identical “no advocacy” clause. In February 2016, the Government said that all government grants to voluntary organisations would include a new “no advocacy” clause that would prevent them from using government funds to influence government policies or give their views to Parliament, also citing the IEA *Sock Puppet* report and the DCLG “pilot”. After considerable protest, the Government announced it would consult further on the measure and we await the outcome.

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\(^{144}\) [http://www.thirdsector.co.uk/interview-gwythian-prins/governance/article/1213800](http://www.thirdsector.co.uk/interview-gwythian-prins/governance/article/1213800)

\(^{145}\) [http://www.civilsociety.co.uk/finance/news/content/17052/grayling_charities_put_too_much_emphasis_on_campaigning](http://www.civilsociety.co.uk/finance/news/content/17052/grayling_charities_put_too_much_emphasis_on_campaigning)
During the EU referendum, the Charity Commission issued advice to charities steering them away from giving views in public about whether to leave the European Union or not.

10. All of these measures have had a “chilling impact” even where charities are not government funded, with self-censorship believed to be a growing problem.

**Unsupportive statutory funding arrangements**
11. Poor statutory commissioning and contracting practices have failed to draw on the distinctive strengths of voluntary organisations, particularly in working with people with complex, specialist needs, and are putting that part of the voluntary sector at risk. It has been particularly hard for smaller organisations to compete for contracts because of the high transaction costs, despite the value of the specialist services that they often provide, and grant-funding has become increasingly unavailable. Payment by results contracts, for example under the Work Programme, have often been poorly designed, transferring financial risk to institutions that are already financially vulnerable and leading to poorer services for people with complex needs. Tightly determined contracts have squeezed out the potential to innovate and deliver services in different ways, the very reason why charities might have been considered a better provider than the public or private sectors in the first place. The public sector reform model, driven as it is by the view the competition drives efficiency, has led to many voluntary organisations competing with others for resources when collaboration might have been more effective.

12. Karen Ingela Smith, the Chief Executive of Nia Project, a small charity that seeks to end violence against women and children, explained in *Independence in Question* what these challenges to independent action mean in practice. She writes that “Increasingly, state funding is driving us into a narrow service delivery role and we are being required to act as an arm of the state rather than as an independent NGO.” She adds that “organisations are left to bid for under-resourced, commissioner-led rather than needs-led tenders that often include clauses or methods that we know are not in the best interests of the women.” Competition is squeezing out quality and favouring larger non-specialist organisations who can cross-subsidise, they find. At the same time, she reports that they are seeing “no advocacy” clauses and suspect they are being squeezed out of policy making.

**Risk that some charities have become too commercial**
13. These cultural changes are arguably leading to some charities becoming too commercial or financially orientated. Some charities have come under fire for poor practices, most notably on fundraising, inappropriate commercial activities and high senior salaries. Major voluntary organisations\(^\text{146}\) have been the most financially resilient of the different types of voluntary organisations. Some have even grown, partly through commercial activities, some also gaining funds from government contracts. But there are legitimate questions about whether some are in danger of losing sight their charitable mission in some of their practices. Charities themselves must ensure they are above reproach if trust in them is to be maintained.

\(^{146}\) Those with turnover of over £10 million.
How can these challenges be overcome
14. Some of these challenges require a change of direction by Government, as explored later in this evidence. But a fundamental shift in government policy seems unlikely without a much deeper appreciation of where and how charities add distinctive value.

Need for a new narrative about the value of voluntary activity
15. More needs to be done by both the sector and wider stakeholders to challenge the fundamentals of the existing framework in which they operate with the state, for example, the view that the market model is always the best way to ensure good value. A more self-confident narrative needs to be developed about the role of the voluntary sector in society and the conditions that it needs to thrive. Defending the status quo is not enough. Larger service delivery organisations in particular must take an honest look at whether they are really distinguishable from the private or public sectors, and how. Key to this is to maintain not just high degrees of professionalism but also a clear focus on delivery of an independent mission, reinforced by transparency and accountability to all stakeholders, including beneficiaries and the general public.

Pressures and opportunities
16. A key pressure is reduced financial resources at a time of increasing demand for services caused in part by cuts in public spending. According to the NCVO, the voluntary sector is facing an estimated £4.6 billion gap in its finances by 2018-19, largely as a result of loss of state income. Although all sizes of organisations except major voluntary bodies have lost state income, between 2011-12 and 2012-13 major and large organisations saw an increase of 3 per cent in their net assets, whereas medium sized organisations saw a fall of 9.5 per cent in net assets.147

Smaller, specialist charities at particular risk of financial difficulty
17. Most at risk are smaller specialist and community based organisations, and umbrella bodies and large organisations that receive significant state funding, particularly those that work in disadvantaged communities and/or in support of disadvantaged groups. Over a number of years, infrastructure bodies have also lost significant state funding and reduced in size and these play a particularly important role in protecting the independence of the voluntary sector.

Opportunities opening up for greater dialogue with government
18. There are new opportunities for the voluntary sector to influence the future of public services and policies. Although the policy of austerity has been a major threat, in some cases the financial climate is also encouraging politicians and public sector managers to look for new, collaborative approaches to help design more effective services. Voluntary organisations often hold vital expertise in how public services could better meet the needs of groups whose interests are not currently well met, with that failure often leading to higher costs for the public purse. This independent role is especially important for those who have least power and influence in society and particularly at a time when public services and welfare support on which they may depend are being cut back and reshaped.

147 A financial sustainability review, change and adaptation in the voluntary sector as the economy recovers, CFG, NCVO, Institute of Fundraising, Locality, NAVCA and Small Charities Coalition, July 2015. Major is defined as income over £10 million. Large is income between £1 million and £10 million. Medium is income between £10,000 and £1 million.
19. Devolution in England potentially creates even greater opportunities for dialogue. However, the structures do not always exist and it is difficult for voluntary organisations facing financial instability and external challenges to their independent voice to take advantage of these opportunities. The NHS Five Year View is one example where the public sector has committed to working in new ways with the voluntary and community sector and has adopted a genuinely consultative approach to do so. Grant funding has been given to help create capacity for partnership.

The role of government
More collaborative style of government is needed
20. As documented in Civil Exchange’s *Whose Society? the final Big Society Audit*, successive governments have said that they wish to empower communities and promote social action, most famously through the Big Society initiative launched by David Cameron in 2010, but have been poor in doing so. The Big Society, for example, spawned numerous government led initiatives, including Big Society Capital and the National Citizen Service. But the Government has primarily seen its relationship to existing charities in terms of equipping them to compete for the delivery of public services with the private sector. This has meant encouraging them to become more like businesses, to scale up or form consortia, moving in the opposite direction to community empowerment and social action.

21. To work effectively with the voluntary sector, and to play to its strengths, Government must adopt a more consultative and collaborative style of government in which it listens more to its voice in policy development and the shaping of public services and spends more time understanding where the voluntary sector might add most value and how best to support it, particularly smaller organisations.

A fundamental review of commissioning and procurement needed
22. A fundamental review of commissioning and procurement practices is required, with greater use of grants, particularly for smaller organisations, where this would lead to better results and more innovation. Some attempts have recently been made to support smaller voluntary organisations, with a £20 million Local Sustainability Fund and some steps to try to make procurement and commissioning more accessible to smaller organisations. However, a more fundamental shift is needed to counter threats to the viability and independent operation of smaller voluntary sector organisations.

Local government also needs to be more collaborative
23. A more collaborative style of government would also beneficial at local government level, and particularly where greater devolution is taking place. However, NAVCA (The National Association for Voluntary and Community Action) reported in a letter to the Chancellor at the end of 2015 that “our members’ experience suggest that devolution is currently driven by local authorities” added that the voluntary sector “has largely been excluded from discussions.”

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24. It is also important that the Government supports and upholds strong and effective regulation of the charitable sector, including structures which ensure that it maintains a healthy relationship with the sector and meets its own commitments.

The Charity Commission must act independently
25. The Charity Commission should play a vital role in safeguarding the independence of the sector and must be seen to be entirely independent of Government. However, it has come under criticism by many commentators for an over-politicised style of enforcement, and there are concerns about the extension of those powers in the latest charities legislation. It is recognised that it faces challenges in its enforcement role but there are those involved in and observing Muslim charities who feel its approach has been particularly heavy handed towards them. The 2015 court hearing on the Charity Commission’s interventions with the Joseph Rowntree Charitable Foundation in relation to the organisation, Cage, illustrate some of these points and concerns that the Board of the Commission may be engaging too closely in regulatory activity.

The Compact must be strengthened
26. The Compact has been repeatedly broken by the Government - for example through the absence of consultation on the introduction of Part 2 of the Lobbying Act. In “no advocacy” and “gagging clauses,” the Government has ignored its Compact commitment to “Respect and uphold the independence of civil society organisations to deliver their mission, including their right to campaign, regardless of any relationship, financial or otherwise, which may exist.” A new Compact is needed, supported by a new state funded agency to promote and enforce it, which is independent and accountable directly to Parliament.

6 September 2016

149 For example, Haroun Atallah, former Chief Executive of Islamic Relief, in Independence in Question: the voluntary sector in 2016.
Mr Ian Clark — Written evidence (CHA0161)

Summary of relevant experience
I have been involved in the leadership of local and national charities for over 40 years, and have witnessed significant changes in that time, not all for the better. My main involvement has been as a trustee of several national and local charities. I have been Chair of the UK branch of an international charity for several years, was Honorary Treasurer of another, and before I retired spent nearly a decade as (salaried) Fundraising Director of a large regional umbrella charity serving several hundred local charities. In my business career my main professional qualification was as a Fellow of the Chartered Management Consultants. I was awarded the Fellowship of the Institute of Fundraising, and represent them on HMRC's Charity Tax Forum. I am also on the Council of the "Remember a Charity" legacy consortium, and have been a Trustee of a major retirement housing charity and related major pension funds for more than a decade.

This is my personal response reflecting five decades of involvement with numerous charities and umbrella bodies, and is not from any particular organisation.

The most noticeable trend in the sector during my lifetime has been the increasing dominance of a few major charities, staffed mainly by professionals and adopting modern (competitive) business-like techniques. The top 2,000+ now account for over 70% of all charity income. Almost all the significant "charity scandals" of recent decades have occurred among these larger charities and their contracted agencies, so regulators attention needs to focus on the risks they pose, with a much lighter touch for the rest of the sector. I believe all the official regulators need to concentrate their attention on these large organisations to drive up their standards and effectiveness, as they are the main "public face" of the charity sector.

It is interesting that the new Fundraising Regulator has chosen this type of approach, effectively ignoring the 250,000+ smaller charities and similar voluntary sector bodies (eg CASCs). This "two tier" approach to regulation could be applied more widely (eg lotteries, street collections).

Speaking from a Trustee governance perspective, I believe that The Pensions Regulator's (TPR) approach has much to teach charities. TPR requires every new pension scheme trustee to pass a basic competence test on the key aspects of pensions law and practice within six months of taking up a trustee post. TPR provides the necessary online training modules, as well as short multiple-choice questions about key decisions that trustees have to make. As a result pensions trustees tend to be more focused on strategy and governance oversight than many charity boards I have witnessed as a consultant. I think the Charity Commission should be trialling a similar system for the trustees of the largest charities, with modules covering issues like charity law, SORP accounts, fundraising, trading, impact measurement and reporting, staff and volunteers etc.
The Charity Commission has encouraged greater impact measurement and reporting through the SORP, but more needs to be done. One way to encourage strategic thinking would be to require larger charities to report on a few key performance indicators (KPIs) over 5 or 10-year periods, rather than simply report on "last year" and "this year".

I have a particular interest in fundraising and wider income generation (eg trading, contracts, investment). What matters to the charity is not the gross income generated, but how much is left to spend on charitable activities after the costs of generating the income have been paid. What senior executives and trustees need to focus on is the "net contribution" from different fundraising channels, or the "income-to-cost" ratio. The long-running "FundRatios" annual survey report by the Centre for Interfirm Comparison shows that the cost-effectiveness of different fundraising channels varies widely, from say 5% for investment income, 20% for retail trading and raffles, 50% for major events, 200% for membership, 500% for grants and over 1000% for legacies.

In the past the Charity SORP required charities to analyse their voluntary income and costs, and so it was possible to calculate the relative cost-effectiveness of different charities. In recent SORPs this has been gradually watered down. I would recommend that, at least for the largest charities, it should be a requirement to include a note to the accounts that analyses the income, related costs and net contribution of the main elements of income generated (eg membership, donations, legacies, trading, grants, service contracts, investments, competitions/raffles, events etc). This would enable academics to identify best practice across the sector, and trustees shape their income generation to be more effective use of available funds, releasing more for charitable purposes, and so increasing the resilience and sustainability of the sector.

My final point is also about fundraising. At the moment there is a fairly tight definition of what activities are charitable, broadly "doing public good" by providing benefit to those in need, the environment etc. Fundraising to support these charitable activities/purposes is not itself a charitable activity. As a result external funders are generally reluctant to fund investment in improving fundraising, preferring to concentrate on what is legally "charitable". Another side effect is that trustees often spend most of their time discussing "charitable activities", and relegate fundraising to the bottom of the agenda -- despite it being their duty to raise the necessary funds before spending them (= the net contribution) on charitable purposes. I am not a lawyer, but it would be very helpful if means could be found in the legislation or regulations to classify "fundraising for charitable objectives" as itself charitable.

12 September 2016
Submission to be found under Professor John Mohan
Clinks — Written evidence (CHA0084)

Introduction

Clinks is the national infrastructure organisation supporting voluntary sector organisations, including charities and social enterprises, working with offenders and their families. Our aim is to ensure the sector and those with whom it works are informed and engaged in order to transform the lives of offenders and their communities. We do this by providing specialist information and support, with a particular focus on smaller voluntary sector organisations, to inform them about changes in policy and commissioning, to help them build effective partnerships and provide innovative services that respond directly to the needs of their users.

We are a membership organisation with over 500 members, including the voluntary sector’s largest providers as well as its smallest. Our wider national network reaches 4,000 voluntary sector contacts. Overall, through our weekly e-bulletin Light Lunch and our social media activity, we have a network of over 15,000 contacts. These include individuals and agencies with an interest in the Criminal Justice System and the role of the voluntary sector in the resettlement and rehabilitation of offenders.

This response is submitted by Clinks on behalf of our members and contacts in the voluntary sector. Evidence provided is the result of direct consultation with, and surveys of, our membership and other voluntary organisations in the justice system. The primary sources of evidence that are called upon in this response are Clinks’ state of the sector reports150, our in depth work in the impact of recent changes to probation and our other responses to relevant government consultations and calls for evidence.151 152

Executive summary

Throughout this submission we highlight several issues and recommendations based on existing research and consultation with the voluntary sector, summarised below.

a. Recognising the diversity of the sector – organisations range from very small to very large and have a range of specialisms that often require a different response when considering their sustainability.

b. Value of volunteering – volunteers are a central part of the voluntary sector and should be nurtured and supported.

c. Better strategic involvement of the voluntary sector – the Government, at a local and national level, needs to take a strategic view of voluntary sector engagement and consider how it can nurture local and national organisations.

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152 Clinks responses, www.clinks.org/responses
d. **Support for grants and a better approach to commissioning** – grants are a better way to flexibly fund innovation and smaller organisations, but commissioning, where it is required, can be improved to make it more accessible and voluntary sector friendly.

e. **Tackling multiple needs through better collaboration and co-operation between sectors** – the sustainability of the voluntary sector is vital in supporting people in our prisons and under probation who have multiple needs. These individuals benefit from dynamic solutions that can’t be delivered by one organisation and require the expertise of the voluntary organisations.

f. **Support for small and specialist voluntary sector organisations** – many smaller organisations have fared poorly due to recent changes to commissioning and procurement practices. These need to be re-assessed and changed to support smaller organisations.

g. **Supporting people with lived experience to take up leadership roles** – listening to people with lived experience, acting on their advice and allowing them to take leadership roles in voluntary organisations is an important way to improve services. We must be careful that new powers under the Charities Act 2016 do not undermine this.

h. **Share good practice through infrastructure** – local and national government should work with organisations like Clinks to engage the voluntary sector with government strategy to support its sustainability.

i. **A local and central government commitment to work with the voluntary sector** – a commitment that enables the voluntary sector to be integral to local and central government decision making and support better outcomes for disadvantaged people in our society.

**Response**

**The purpose of charities**

**What is the role and purpose of charities in civic society in England and Wales?**

1. The voluntary sector, working alongside people in the justice system and their families, aims to support rehabilitation, resettlement and ultimately desistance from crime. The voluntary sector is formed of a wide variety of organisations with different visions, missions and activities. There are an estimated 1,750 voluntary organisations whose primary beneficiary group is people in the justice system and/or their families. A further 4,916 voluntary organisations report that criminal justice is one of their areas of work.153

2. The voluntary sector working in criminal justice includes small, unstaffed community groups and large national organisations that employ hundreds of people. Within this diverse group are campaigning organisations, self-help groups and service providers. Between them they

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153 Source: Third Sector Research Centre, [www.birmingham.ac.uk/generic/tsrc/index.aspx](http://www.birmingham.ac.uk/generic/tsrc/index.aspx)
provide a wide range of services, including mental health, housing, financial advice, drug and alcohol rehabilitation, women specific services, services to tackle racism and discrimination, arts projects, mentoring and befriending to name just a few.

3. What these organisations have in common is a commitment to rehabilitation for the benefit of the individuals they support, their families and society as a whole. At its best, the sector and its staff are inspiring in their creativity, dedication and determination to make a difference.

4. The sector plays a unique and valuable role in the Criminal Justice System. Through its local services it often engages with some of the most excluded communities and those suffering multiple disadvantages - those who mainstream services fail to reach. The sector champions the people they work on behalf of, speaking out for those who often have little say in the how services are developed or delivered. They support people going through the justice system in a non-judgemental way, focussing on the individual’s circumstances and aspirations in order to provide services based on the needs of beneficiaries.

How has this changed?

5. The majority of voluntary organisations working in this sector are small. Research conducted by NCVO into the shape and size of the voluntary sector, and compiled into the UK Civil Society Almanac, suggests that of the 160,045 charities registered in the UK, just over 83% are micro or small organisations with an income of £100,000 or less.\textsuperscript{154} Clinks’ 2016 state of the sector report found that 81% of respondents had an income of less than £1 million per annum.\textsuperscript{155}

What makes them distinct from other organisations doing similar work?

6. There is a great amount of distinction within the sector as to what organisations do and how they do it. However, there are some features that unite it and make it stand apart from many other sectors. The sector is not for profit, focussed on providing services to those that need it. Most organisations in the sector are locally based and have grown out of concern for local people, or the absence of services to meet an identified need. Many voluntary organisations attract, involve, train and supervise a significant number of volunteers from the local community to support marginalised and disadvantaged people. Clinks’ 2016 state of the sector survey showed that 94% of the contributing organisations involved volunteers, with 40% recruiting more volunteers in the last year. We found that on average, for every one member of staff, organisations involve 1.5 volunteers.

7. The voluntary sector often provides specialist support by developing expertise in a given field that is rarely possessed by other large public and private sector organisations. In the justice sphere this can include expertise on working with care leavers, black, Asian and minority ethnic communities, women, young people, people with multiple needs, specialist

\textsuperscript{154} NCVO, UK Civil Society Almanac (2016), \url{https://data.ncvo.org.uk}
\textsuperscript{155} Clinks (2016), State of the sector, \url{www.clinks.org/sites/default/files/basic/files-downloads/clinks_state-of-the-sector-2016_final.pdf}
family support for people in prison, supporting foreign nationals in prison, specific support for sex offenders, specialist accommodation providers, mental health providers, drug and alcohol support and more. This level of expertise supports the success of many more mainstream services in the justice system.

8. The independence of voluntary organisations allows them to provide services that are wholly focussed on the beneficiary and the communities that they support. This often leads to a service that works alongside individuals to support them to meet their own aspirations, giving them a strong voice in how services are designed and delivered.

**What role can charities play in community cohesion and civic action?**

9. The voluntary sector has pioneered volunteering and service user involvement in the justice system, both of which support civil action and community cohesion. Clinks recently partnered with Revolving Doors Agency to utilise the expertise of the voluntary sector in service user involvement to create a guide advising others how to do it. We also published a summary of good practice from voluntary organisations working to set up prisoner councils, support prisoner engagement in health services, improve mental health liaison and diversion schemes and supporting women and older people in the justice system. This level of engagement and involvement of people with lived experience can dramatically increase the civic action of people in prison and those on probation. It also has the potential to shape better services and improve outcomes for individuals and communities.

10. The arts can also play a critical role in representing the difficulties faced by marginalised individuals and communities, using mediums such as music, drama, the written word and visual arts to provoke public debate and educate people about closed settings such as prisons. The National Criminal Justice Arts Alliance, the leading national network supporting the arts in criminal justice, is hosted by Clinks and brings together 800 Alliance members that deliver creative interventions to support people in prison, on probation and in the community, with impressive results.

**How does the sector benefit from volunteering?**

11. The Criminal Justice System benefits greatly from the involvement of volunteers through local and national voluntary sector organisations. The voluntary sector also benefits from the added capacity that volunteers provide. However, they do need to invest human resource and finance to recruit, train, manage and supervise volunteers. This is a major undertaking for voluntary organisations that are committed to involving volunteers.

12. Clinks recently undertook two significant projects to explore the involvement of volunteers in the justice system. The Ministry of Justice commissioned Clinks to assess the current state

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157 Clinks (2016), Good practice in service user involvement, [www.clinks.org/resources-guides-toolkits/good-practice-service-user-involvement](http://www.clinks.org/resources-guides-toolkits/good-practice-service-user-involvement)

158 National Criminal Justice Arts Alliance, [www.artsincriminaljustice.org.uk](http://www.artsincriminaljustice.org.uk)
of volunteering in prisons and to make recommendations on how it could be improved.\textsuperscript{159} Clinks also led and published a European study on the role and value of volunteers in the Criminal Justice System. This study reported on the vast contribution from volunteers in the CJS across England and Wales, Germany, Portugal, The Netherlands, Romania, Hungary and Italy.\textsuperscript{160} Our research has shown that, even in a closed environment like a prison, volunteering has numerous benefits. These include better representation of the local community, space for innovation, bringing a personal touch to services, increasing the morale of public sector staff, freeing up public sector staff to focus on their jobs and allowing for greater flexibility in how services are delivered.

**How has the status of volunteers changed?**

13. Clinks’ research has shown that volunteering remains a vital and consistently used method of delivering services in the voluntary sector. However, it is often difficult to resource properly and sometimes it is under-valued in strategies to deliver public services. Our study of volunteers in prison showed that simple solutions, such as the introduction of volunteering strategies, easier to understand vetting practices and more flexibility in prisons as to when volunteers can gain access to the prison, is highly likely to increase volunteer involvement.

14. One aspect of volunteering that should be a focal point is the diversity of volunteers. After surveying 627 volunteers in prison we found that 93% were white and 46% were over 65, with 61% saying that they are retired and volunteer in their spare time. This apparently low level of diversity amongst volunteers in prison is a concern.

15. In our studies, we have not found any instances where volunteers have been used to replace paid staff. Clinks does recognise that this remains a concern and requires careful management to ensure that volunteers are not asked to perform tasks that would otherwise be the responsibility of paid staff. It is also worth noting that there are some instances when the work needs to be done by unpaid volunteers to maintain the credibility and approach of a service. For example, peer support services such as the Samaritans’ Listeners scheme that aims to reduce the number of self-inflicted deaths and suicides amongst prisoners\textsuperscript{161} and approaches such as Circles of Support and Accountability\textsuperscript{162} which recruits volunteers from the community to support the resettlement of sex offenders.

**What challenges do charities face in trying to fulfil their role in civic society?**

16. There are a number of challenges faced by the voluntary sector in criminal justice. These includes

\textsuperscript{159} Clinks (2016), Valuing volunteers in prison: a review of volunteer involvement in prisons, [www.clinks.org/resources-reports/valuing-volunteers-prison-review-volunteer-involvement-prisons](http://www.clinks.org/resources-reports/valuing-volunteers-prison-review-volunteer-involvement-prisons)

\textsuperscript{160} Clinks (2016), Justice Involving Volunteers in Europe, [www.clinks.org/resources-reports/valuing-volunteers-prison-review-volunteer-involvement-prisons](http://www.clinks.org/resources-reports/valuing-volunteers-prison-review-volunteer-involvement-prisons)

\textsuperscript{161} Samaritans Listeners Scheme, [www.samaritans.org/your-community/our-work-prisons](http://www.samaritans.org/your-community/our-work-prisons)

\textsuperscript{162} Circles of Support and Accountability, [www.circles-uk.org.uk](http://www.circles-uk.org.uk)
a. A rapidly changing government agenda and the fast pace of change, such as the changes to probation services under the last government, which don’t appear to have provided much opportunity for the majority of the voluntary sector. In addition, there have been recent announcements about changes to the prison estate, with possible changes to the youth justice system being considered by the Ministry of Justice.

b. The funding environment is challenging for many, including the proliferation of commissioning and contracting over large geographical areas and bunching together a number of services into one contract. This, combined with the decline in available grant funding and the short-term nature of many grants, has caused complications for small organisations; specifically they have had to divert a significant amount of time and resource away from front line services on to biding for contractual opportunities. This is further compounded by voluntary organisations using their reserves in an unsustainable way to support contracts that do not offer full cost recovery and a lack of available unrestricted funding that is needed to support flexibility, back office and managerial functions.

c. An environment of reduced budgets both locally and nationally has impacted on the ability of organisations to be sustainable.

d. Organisations have reported to Clinks that service users are presenting with multiple needs and becoming more complex to support.

e. We have also heard from many specialist services that meet the different needs of people who have protected characteristics under the Equality Act (2010) and are struggling to maintain their place in the market with the rise of more generic services and the loss of specialisms. We have heard this from some women specific organisations attempting to deliver specialist services alongside new probation services and from organisations that are struggling to be involved in delivering specific services for people from black, Asian and minority ethnic communities in the justice system.163 164

How can these challenges be overcome?

17. The voluntary sector has always shown itself to be incredibly resilient and adaptable in times of change and challenge. However, there are actions that can be taken to place it on a stronger footing and to increase its sustainability in the longer term.

18. The voluntary sector in criminal justice should be a key strategic ally for the development of government strategy and the design, as well as delivery, of public services with the aim of improving outcomes for people in the Criminal Justice System, their families and the communities in which they live. This should include open consultation and engagement at a

local and national level with clear transparency as to how different levels of government involve the expertise of the voluntary sector. Clinks recently published a paper outlining how this could be achieved in the recently announced reform prisons.  

19. The challenges faced by organisations in the commissioning landscape are addressed later in this submission. In addition to this submission, Clinks have worked alongside Lloyds Bank Foundation and others to make a separate submission on the issue of involving small to medium sized organisations in the commissioning of services. Clinks are a member of the Directory of Social Change led Grants For Good Campaign, and advocate for the reversal in the rapid decline in grant funding from local and national government to the voluntary sector.  

20. Although it will not alleviate all the pressures on local budget constraints, collaboration with the voluntary sector about funding for necessary services must happen in an open and honest way to assess what the gaps are in public services and how these can be addressed through other means of funding. Any approach of this nature must include pro-active engagement with institutions such as the Association of Charitable Funders and individual charitable trusts and foundations.  

21. Clinks are one of the founding members of the Making Every Adult Matter (MEAM) coalition, which alongside Homeless Link and Mind, calls for an improved approach to people with multiple needs. The voluntary sector can and does play a vital partnership role in providing more effective coordinated services that empower people to address their homelessness, addiction, mental ill health and contact with the Criminal Justice System. We believe that effective support for our most disadvantaged citizens can only be achieved through co-operation and joint working between all sectors and with the voice of the service users at the heart of service design and delivery.  

22. Clinks believes that specialist organisations that support minority and disadvantaged groups within the justice system are critical to improving services for some of the most marginalised people in our justice system. We are hopeful that David Lammy MP’s review into racial bias in the Criminal Justice System will lay out clear recommendations for change. Clinks also support and continue to lobby for the adoption of recommendations made by Baroness Young of Hornsey’s independent review into improving outcomes for young black and/or Muslim men in the justice system. Specifically, the Young Review called for the better involvement of community groups and charities to tackle the huge and growing over-representation of these people within our prisons and in our probation services.  

Pressures and opportunities

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166 Grants for Good, www.dsc.org.uk/grantsforgood/  
167 Association of Charitable Funders (ACF) www.acf.org.uk  
168 Making Every Adult Matter (MEAM) coalition, http://meam.org.uk/  
What are the main pressures faced by charities currently and what impact have these had?

23. Charities supporting people in the Criminal Justice System have been facing pressure to engage with a range of new commissioners at short notice. This includes the introduction of Police and Crime Commissioners and replacing Probation Trusts with Community Rehabilitation Companies (CRCs) and the National Probation Service (NPS). Over the last two years, Clinks has partnered with the National Council for Voluntary Organisations (NCVO) and Birmingham University’s Third Sector Research Centre (TSRC) to track the impact of changes made to probation services under the Transforming Rehabilitation reforms.\(^\text{170}\)

24. The Transforming Rehabilitation programme was marketed to the voluntary sector as an opportunity for them to become more involved in the delivery of public services and improve outcomes for people under probation supervision. Despite pressure to become involved and a Ministry of Justice statement that “75% of the 300 subcontractors named in the successful bids are voluntary sector or mutual organisations”, we have seen very little evidence of widespread voluntary sector engagement. \(^\text{171}\)

25. Of the 155 organisations surveyed in our most recent report on Transforming Rehabilitation, only a quarter had been funded by CRCs and/or the NPS. The organisations that that did get funding are disproportionately larger, with an income of over £5 million per annum. The majority of those with an income of under £5 million have struggled to be involved. However, most of these charities still take referrals from CRCs, the NPS and prisons, meaning that whilst they aren’t funded by these organisations they still provide services that benefit the public. Worryingly only 1 in 6 (17%) of organisations that had no contracts with CRCs or the NPS believed their funding to be sustainable. 58% stated that they considered themselves to be unsustainable.

26. Despite great efforts to be involved, it appears that many smaller organisations are unable to engage in these large commissioning and procurement exercises. This is of particular concern in a criminal justice setting, as we know that public giving (through donations) to charities supporting people in the justice system only contributes a very small portion of their income. In our 2015 state of the sector survey we found that on average, organisations only receive 1.25% of their funding through public giving. \(^\text{172}\)

What opportunities do charities have in the current environment?

27. In times of great change, such as that which we have experienced in the Criminal Justice System, it is possible to change services for the better and to find more creative ways to engage the voluntary sector.

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28. In a probation context, Clinks has made recommendations through its most recent report ‘Change and challenge: the voluntary sector’s experience of Transforming Rehabilitation’. We believe that, if these recommendations were implemented, it would significantly improve the engagement of the voluntary sector and provide opportunities.

29. Clinks have also made recommendations about how Police and Crime Commissioners could better engage with their local voluntary sector through our Home Office funded Safer Future Communities project and through more recent guidance produced around the 2016 elections.\(^{173}\) \(^{174}\)

30. In recently proposed reforms around increased devolution of autonomy to prison governors, there are potential opportunities to involve the voluntary sector in a more coordinated way. The National Offender Management Service has supported the engagement of the voluntary sector in six early adopter prisons through a £1.7 million grants programme for voluntary organisations to bid for. This is a positive early move and Clinks would recommend an increase in grants programmes of this nature to encourage innovation and better collaboration between sectors.

Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

31. As highlighted above in our submission, there are clearly some significant challenges for smaller organisations in the current climate. We have also outlined how this can impact on equalities organisations, such as women specific services and those tackling racial bias in the Criminal Justice System. Clinks would recommend that specific attention be paid to different parts of the voluntary sector, both in terms of income and specialisms, as the issues that affect them tend to be very different. This would require an approach that differentiated the support needs of the sector and acted appropriately.

Innovation
How do charities seek to innovate?

32. Within criminal justice, the voluntary sector has been an active contributor to new approaches throughout its existence. The creation of a probation service over 100 years ago was as a result of charitable activities carried out by the church. Today we see this innovation continue. The establishment of women specific services, the development of family services in prisons and the prison visitor centres, the involvement of the arts in rehabilitation services, the development of restorative justice approaches, mentoring and befriending, service user involvement and peer-led services, volunteering, resettlement accommodation services and much more has been achieved through the voluntary sector’s engagement with the Criminal Justice System.

\(^{173}\) Clinks (2012), Safer Future Communities project, [www.clinks.org/sfc](http://www.clinks.org/sfc)

33. We have also seen significant collaborations between charities to affect change, such as the Transitions to Adulthood (T2A) Alliance that has been building evidence of how to better support young adults, defined as 18-25 years old, as a specific group in the Criminal Justice System, funding pilot projects, commissioning research and producing guidance.  

**What more could be done to promote innovation, and by whom?**

34. There is a clear role for all partners in the Criminal Justice System to be thinking about innovative approaches to complex issues, such as how someone desists from crime and does not re-offend.

35. To spur on innovation the Government could provide central grant funding, or devolved to relevant local government and/or institutions, to test new approaches and welcome the voluntary sector in to trial wholly new services, or to explore the potential for improvement of existing practices.

36. In order to achieve this we recommend that any grants programme is co-designed with the voluntary sector in an open and transparent way. Liaison with infrastructure organisations such as Clinks and others can support the voluntary sector’s involvement in these processes.

37. We also recommend that any innovation funding allows for effective evaluation and impact assessment to assess learning from the approach and whether or not it has been successful. This learning should be widely shared to minimise the duplication of effort.

**What barriers are there to being innovative?**

38. Often quite ridged commissioning processes, with tightly prescribed service specifications, can halt innovation. A decline in more flexible grant funding in favour of large contract package areas has made innovation difficult for some organisations.

39. The need to evidence the effectiveness of services before many commissioners will consider them also puts a barrier in place on innovation. Especially when these services are structured in a payment by result framework.

**Governance and leadership**

**What skills are required to lead and manage a charity? What role should trustees play in the performance and effectiveness of a charity?**

40. Many voluntary sector organisations in criminal justice have been developed and led by people with lived experience of the justice system, either personally or as a family member. This ethos drives a desire to have people in leadership roles that understand what it is like to be in the system and how to navigate your way out of it.

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175 Transition to Adulthood Alliance, [www.t2a.org.uk/](http://www.t2a.org.uk/)
41. For that reason Clinks and others, such as Unlock and the Prison Reform Trust, have raised concerns about the recent Charities (Protection and Social Investment) Act 2016. The Act gives the Charity Commission “a power to disqualify individuals from acting as trustees. While a person is disqualified under this power they are also disqualified from holding senior management positions in the charity or charities concerned”. This disqualification can relate to the previous convictions of either a serving and potential trustee or senior manager in a charity. Full details of the consultation documentation can be found on the Charity Commission website.

42. Clinks have submitted evidence to the Charity Commission’s consultation on the power to disqualify from acting as a trustee (as yet unpublished). We are working closely with the Charity Commission to try and curtail any damage to the prospects of people with previous convictions becoming trustees and/or senior managers in charities, but this issue remains a of considerable concern.

Resource management
What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

43. Clinks’ 2016 state of the sector report showed that the voluntary sector is supporting its existing services from charitable reserves at a rate that is unsustainable. Clinks found that 69% of organisations surveyed reported they would use all of their reserves in a year or less if they continue using them at current levels. When analysing this data by size of organisation, we found that this was particularly the case for small organisations (89%).

44. Our state of the sector survey shows that, in 2014/15, the sector had a mixed funding portfolio, with 43% of organisations receiving 50-100% of their income from grant funding and 32% receiving this proportion of their funding through contracts. A similar proportion of organisations, 32%, report they are receiving no funding from contracts for this financial year.

45. It is clear that organisations are spending more time on fundraising to increase their sustainability. 100% of organisations replying to our survey report they have been spending more time on fundraising. This was also reported to be impacting on the time many organisations can spend delivering services to the vulnerable people they are set up to support.

How can these challenges be overcome? How can best practice and information be shared across the sector?

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177 Consultation on power to disqualify from acting as a trustee, www.gov.uk/government/consultations/consultation-on-power-to-disqualify-from-acting-as-a-trustee
Clinks — Written evidence (CHA0084)

46. Clinks have made recommendations in our research report, ‘More than a Provider’, on how commissioning practices could be improved to support the voluntary sector in order to better support financial sustainability.179

47. Best practice could be shared through voluntary sector infrastructure bodies, such as Clinks and others, to inform a range of public, voluntary and private sector partners. Good practice should also be promoted and applied by central and local government.

How can charities effectively deliver services and be assured that their work achieves successful outcomes?

48. In 2013-14, in order to support better outcome measurement and impact assessment, Clinks partnered with New Philanthropy Capital to produce a set of guidance for the voluntary sector on measuring their success or understanding their failures.180 This included guidance on developing an evaluation strategy, the practicalities of research, existing evidence and testing shared measurement tools. We recommend that tools like these and others developed by the sector should be considered when evaluating services. We also recommend that charities be supported to meet reasonable standards of rigor in their research and evaluation, so long as it can be resourced and is proportional to the amount of investment in services.

49. The Justice Data Lab, created by the Ministry of Justice and promoted by New Philanthropy Capital, has also seen a shift in how organisations can assess their impact on reducing re-offending measures.181 Whilst this tool is useful, it does require a relatively high volume of service users to assess whether changes in re-offending rates have been statistically significant. This can put smaller organisations at a disadvantage.

The role of the Government

What should the role of Government be with the sector?

50. The relationship between government and the voluntary sector should be one of co-operation on broad goals, such as the rehabilitation and resettlement of people in the Criminal Justice System. But it should also find ways to engage on an equal footing with specialist organisations that deliver specific services for people with protected characteristics and other groups of specific interest.

51. Clinks recommends that government at both a national and local level, should develop clear strategies that support and nurture the voluntary sector in any given department or area and that these are widely consulted upon. We also think that local and national voluntary sector infrastructure organisations, such as local councils for voluntary service or national

179 Clinks (2014), More than a provider: the role of the voluntary sector in the commissioning of offender services, www.clinks.org/resources-reports/more-provider-role-voluntary-sector-commissioning-offender-services
organisations like NCVO and Clinks, should be supported to act as a neutral broker between government and the wider voluntary sector.

52. As previously mentioned, we think that voluntary organisations could be positively supported by well-designed government grant programmes that are long-term, strategically designed in partnership with the voluntary sector and allow for innovation.

What is the likely impact of greater local devolution on the charitable sector, or particular types of charity? What are the opportunities and challenges associated with local devolution?

53. At this stage, it is unclear what impact justice devolution will have on the voluntary sector. A recent briefing from the Making Every Adult Matter (MEAM) alliance on devolution and multiple needs in England found that many voluntary sector organisations in devolution areas felt on the fringe of decision making and not fully involved. MEAM recommends that combined authorities and others involved in negotiating deals need to ensure there is a clear, transparent route for the voluntary sector and the people it supports to engage in the devolution process. ¹⁸²

54. In Wales the voluntary sector has very different structures to navigate. Police and Crime Commissioners are working in Wales are working to a non-devolved justice system, but with other areas of policy devolved to the Welsh Assembly that impact on the ability to support people in the justice system and their families. This adds complexity and requires a unique approach to supporting the voluntary sector in Wales which will be distinct from the devolution occurring in the English regions. Clinks have recently established a Wales based development worker to support the voluntary sector working in criminal justice.

5 September 2016

¹⁸² Making Every Adult Matter coalition (2016), a briefing on devolution and multiple needs in England
1. **Clore Social Leadership**

1.1 The Clore Social Leadership Programme (Clore Social Leadership) was established in October 2008 with the objective of developing leaders with a social purpose to enable them to transform their communities, organisations and the world around them. The charity was founded on the basis that there was very little training across the UK for aspiring leaders in large and small charities, social enterprises and community groups.

1.2 Now in its eighth year, Clore Social Leadership invests in people who have the potential to become social sector leaders and provides learning and development opportunities impacting both their organisations and the wider sector. This is done through an annual Fellowship programme for emerging leaders, a range of short courses and bespoke programmes, and, increasingly, through online engagement.

1.3 Clore Social Leadership recognises that leadership is needed across all levels within organisations – including volunteers, junior and senior managers, senior executive teams and chief executives, and Trustee boards. Clore Social Leadership believes that to secure long-term sustainable social change, strategic investment is needed in leadership across the sector to equip it with the resilience, self-awareness and skills to meet the changing demands of the 21st century.

2. **The submission**

2.1 This submission sets out the case for strengthening leadership and governance in the voluntary sector. It submits that leadership is currently not invested by civil society organisations, and that those leadership development opportunities which are available are not accessible to the majority of the sector.

2.2 This submission does not address all aspects of the Inquiry. However it will be self-evident that without leadership and governance, excellence the voluntary sector will continue to run major risks and under perform on its essential and often life-critical roles in British society.

2.3 The submission starts by outlining what has been learnt by Clore Social Leadership over the last eight years and the complex challenges facing the sector in developing leadership. It argues that only a strategic, sector-wide approach will effectively answer the leadership and governance challenges faced by civil society organisations.

2.4 Within this submission, the term ‘leadership’ is intended to cover the three connected issues of leadership, management and governance.

3. **What Clore Social Leadership has learnt over the last eight years**

3.1 Civil society encompasses a broad range of voluntary organisations, including large and small charities, housing associations and community groups. In total, there are over 163,000 charities in the UK, who turn over approximately £36 billion per year. It is a complex sector, where the largest organisations have different capabilities, resources and structures than medium and small organisations. However, as the appendix 1 shows, minute numbers of leaders are being developed and trained, leaving large gaps in the skills and knowledge required to manage the complexity.
3.2 In February 2012 the Chartered Management Institute produced a report on the value of investing in leadership and management development. This identified a significant deficit in leadership and management capability across the UK economy, with the incompetence or bad management of company directors estimated to cost UK businesses over £19 billion per year in lost working hours and causing 56% of corporate failures. This report argued that investment in leadership is key for the UK economy to grow over the coming decade, stating that best-practice management development can result in a 23% increase in organisational performance.\(^{183}\)

3.3 Research has repeatedly shown the under investment in the leadership across the UK economy is replicated in the social sector. This is particularly pronounced in small to medium sized charities, which make up the majority of the sector. In addition, a dependence on project based approaches to funding and working encourages short termism within both large and small organisations.

3.4 Effective leadership creates strong organisations. Leadership development and education gives people the confidence, awareness and skills to undertake their jobs and voluntary roles effectively. Clore Social Leadership has conducted a review of its own comprehensive, 12-month Fellowship Programme for social sector leaders, to find out the impact experienced by the participants and their organisations. It was found that 72% of participating leaders have taken on new leadership roles since starting their Fellowship and 90% of their managers stated that the participants have increased their organisation’s social impact.

3.5 Two groups in particular are not able to access leadership training and development – new managers and Trustees. New managers are often promoted into roles without receiving training on how to undertake their roles effectively (particularly in respect of behaviour, coaching and team leadership), while Trustees rarely receive training and frequently don’t understand their responsibilities and the leadership decisions they need to make.

4. The sector’s difficulties – current and future challenges

4.1 The social sector needs strong and effective leadership now more than ever. The loss of public confidence following the closure of Kids Company and the backlash against fundraising practises revealed a sector which is rapidly redefining its relationship with the public and private sectors while struggling with the effectiveness of its governance structures, and, against this context of change, failing to communicate the complexity of its work to the public with clarity. At the same time, British society is entering a period of unprecedented change – an aging population, the rapid technological change described above and a new social contract will present a new and complex set of societal challenges over the next twenty years.

4.2 Strong organisations create a strong sector. Strengthened leadership is needed in organisations across the voluntary sector if it is to respond to the short-term loss in public

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confidence and to rise to the longer-term societal challenges, while continuing to sit alongside the private and public sectors as a driving force for positive social change.

4.3 Over the last fifteen years a raft of initiatives have attempted to understand and address the leadership needs of the social sector, including: the ACEVO/NCVO ‘Initiative to Promote Leadership Development in the Voluntary Sector’ (2003) and ‘Third Sector Leadership Centre’ (2006); the establishment of the Clore Social Leadership Programme by the Clore Duffield Foundation (2009); the commission led by Baroness Tanni Grey-Thompson on the ‘Leadership and Direction of Civil Society’ (2010); and the Dame Mary Marsh Review of Skills and Leadership in the Social Sector’ (2013).

4.4 Although these initiatives have been able to identify where better leadership is needed with a degree of localised success, none have been able to cause or catalyse systemic change. Leadership development solutions which have been created for the social sector have been expensive and required an extensive time commitment. There is still a widespread belief across the sector that investment in leadership development is an unnecessary, or unaffordable, luxury. This situation is exacerbated by the random and ad-hoc supply of leadership development opportunities, which are inconsistent in quality (see Appendix 1).

4.5 Clore Social is not alone in its call for the sector to take leadership more seriously. In March 2016 the Funders' Collaboration on Leadership was formed, led by Calouste Gulbenkian and supported by 15 major foundations, Big Lottery, Office for Civil Society and the Charity Commission. This group has now attracted a membership of 50 umbrella bodies and practitioners and is committed to finding scalable solutions to the sectors’ leadership and governance needs. Four urgent issues have been prioritised:

- Restoring Trust in the Voluntary Sector
- Promoting the use of Foresight data in planning
- Governance skills for a Changing Landscape
- New styles of Social leadership.

5. Strategic Solutions to the Leadership and Governance Challenges

5.1 The voluntary sector has a tendency to solve its problems with small sub-scale solutions and this tendency is also visible in training and development. To ‘raise the tide’ a strategic surge is needed, and new digital technologies have opened up new horizons and new possibilities. Below is a comprehensive strategy which could achieve a step change for social leadership in the UK.

5.1.1 Using the hostile climate to promote the value of leadership

The social sector has been heavily criticised by the media and the public but also by the Charity Commission. It is therefore likely to be responsive to supportive initiatives which help improve it and demonstrate that it is indeed willing to establish a better practice.

5.1.2 Achieving scale and critical mass quickly

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Individual leaders find it a lonely road to travel, often complaining that their organisations are not ready. For real impact, a time-limited but substantial ‘surge’ of training and development is recommended. Not only will organisations be better run but there is good evidence that leaders will inspire and support more managers and leaders.

5.1.3 Segmenting the market
Leaders in the social sector are a diverse group and Clore Social Leadership has created a segmentation consisting of seven different categories (community leader, emerging leader, board leader etc), which assist in understanding how varied the sector is. Understanding this diverse group of leaders, what they need and how they learn is essential. The focus needs to be on a ‘just in time’ approach, so that leaders are getting the support they need at the right time. Research and intelligent use of data will be critical if we are to achieve the horizontal and vertical saturation that is required.

5.1.4 Making training affordable
A recent, yet unpublished, survey from Clore Social Leadership of 500 CEOs showed that cost was the major obstacle to training and development of their staff. Online learning, economies of scale and developing low-cost-high-volume options are vital to tackling the problem effectively.

5.1.5 The 3 elements of ‘making a market’
The CEO survey showed the barriers that leaders face. They lacked information about what training was appropriate, where to find it and how to gauge quality. In order to create an effective market the supply side will need organising with better information and signposting (the brokerage role). Just as important will be stimulating demand behaviour – leaders must value training and see the benefits.

5.1.6 Constant innovation to reach more leaders with better offers
Leadership training is a constantly evolving field. New challenges demand new skills and behaviours. The advent of digital technology gives us many more learning and communications options. Unfortunately, currently the sector lags far behind on both leadership and digital solutions – bringing innovation to the sector’s leaders will be an essential part of any strategy.

5.1.7 Investing in a good infrastructure
To be truly impactful and effective, the leadership surge must be strategic, thoughtful and deliberate. It will require significant investment and an infrastructure of staff, knowledge and networks to support it. If a ‘surge’ approach is used, it should lead to the establishment of a market approach, and the infrastructure can be scaled down in due course.

5.1.8 Creating a mutually supportive leadership community
An important lesson from the Clore Social Leadership’s Fellowship Programme is the value of peer groups in learning and continued support. Any leadership approach should aim to create a community of social and ethical leaders who learn from each
other and are mutually cooperative and reinforcing. The benefit of this would be powerful and beyond anything one could buy. All, of course, made possible by technological advances and social media.

5.1.9 Creating an appetite for good leadership
The social sector often ‘makes do’ and too often settles for poor management. Showcasing good practice in management, creating great role models and quantifying the benefits for our users will be important to stimulate the demand for good leadership. Equally important will be the leverage and soft power that funders and the Charity Commission can have in persuading trustees and CEOs to skill-up.

5.1.10 A policy and evidence based approach to leadership
Currently governance and leadership training have been developed in an ad hoc way with little research about the sector and its needs. To achieve critical mass, a research and policy phase will be important, as will the search for good practice and a relentless pursuit of targets and data.

5.1.11 Knowing what good leadership looks like
Without being over-prescriptive, it is recommended that every organisation has, at the minimum (a) good governance training for new trustees (b) new to management training for supervisors and team leaders and (c) leadership training for emerging leaders. Furthermore, every leader should be clear about what capabilities they are expected to develop during their career as social leaders (see appendices 3 and 4).

5.1.12 A short period of sustained and substantial investment
Training and development does not need to be expensive and in the long term, can be delivered at low cost. However, bringing managers up-to-speed quickly, giving trustees a learning boost, building a technical infrastructure, creating databases, IP and management systems will take considerable investment. There are many rewards to be reaped from this approach but it must be driven by a deliberate strategy supported by substantial investment from government.

Appendices:
1. Current Leadership Training for Charitable and Social Sector
2. Segmentation/training matrix
3. Capability framework
4. Framework for social leadership
### Appendix 1

<table>
<thead>
<tr>
<th>Training provider</th>
<th>Target group</th>
<th>Programme summary and Duration</th>
<th>Participant numbers</th>
</tr>
</thead>
</table>
| **ACEVO**         | CEOs and Emerging Leaders | Leadership Development Programme - 6 or 12 months  
Emerging Leaders - 2 months  
ACEVO Masterclasses - 1-2 day  
ACEVO Leading Governance Masterclasses | 1,205 full members in 2013/14  
18 members accessed ACEVO’s leadership programmes in 2013/14 |
| **CASS Business School – Centre for Charity Effectiveness** | CEOs and Senior Managers and Leaders | Aspiring Chief Executive Programme - 3 months  
New Chief Executive Programme - 3 months | Unknown |
| **Clore Social Leadership** | Emerging Leaders, CEOs | Fellowship Programme – 12 months  
Bespoke Programmes – varies  
Leadership Short Courses – 1-2 days | Approx. 20 individuals on Fellowship |
| **On Purpose** | Emerging leaders | The Associate Programme - 12 months | Approx. 40 individuals per year |
| **School for School Entrepreneurs** | Aspiring and emerging social entrepreneurs | Lloyds Bank Social Entrepreneurship Programmes - 14 days  
Other programmes cover various topics; currently include:  
Transition to Trading  
Replication and Social Franchising  
Third Sector Digital Leaders  
Duration: from 1 days to 3 months | Approx. 1,500 individuals are considered alumni. |
### Social Enterprise Academy
- Short courses: 1-2 days.
- Bespoke training courses
- Aspiring and emerging leaders, senior managers, CEOs
- Award in Leadership (2-3 months, 6 contact days)
- Gaelic Medium Leadership Award (4 contact days)
- Wide Horizons for Sports Leaders
- Approx. 7,500 individual participants up to date

### NEON – Campaign Lab
- Short courses: 1-2 days.
- Aspiring and emerging leaders, senior managers, CEOs
- Award in Leadership (2-3 months, 6 contact days)
- Gaelic Medium Leadership Award (4 contact days)
- Wide Horizons for Sports Leaders
- Approx. 7,500 individual participants up to date

### NEON – Campaign Lab
- Campainers, activists and organisers
- 6 months
- 24 individuals per course

### Appendix 2 – Segmentation matrix

<table>
<thead>
<tr>
<th>Systemic, visionary leadership skills</th>
<th>Strategic business skills</th>
<th>Technical skills, mgmt, governance</th>
<th>Self-mastery</th>
</tr>
</thead>
<tbody>
<tr>
<td>commonpurpose</td>
<td>London Business School</td>
<td>charity</td>
<td>Various short course providers</td>
</tr>
<tr>
<td></td>
<td>70</td>
<td>OnPurpose</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>acevo</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>elija</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior leaders</td>
<td>Community leaders</td>
<td>Emerging leaders</td>
<td>Aspiring CEOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Senior leaders</td>
<td>Board leaders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leaders of leaders</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 3 – Six Capabilities of a Social Leader

<table>
<thead>
<tr>
<th>Problem Solver</th>
<th>Generous Collaborator</th>
<th>Motivated Mentor</th>
<th>Responsible Steward</th>
<th>Applied Researcher</th>
<th>Savvy Networker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrelentingly puts the problem and needs of constituents at the center; agnostic as to model of the solution</td>
<td>Recognizes problem can only be solved at the ecosystem level, not by a single actor</td>
<td>Committed to the professional development and success of all colleagues</td>
<td>Prudent fiduciary with funds in the public trust</td>
<td>Anchors innovation, strategy, implementation in data and evidence</td>
<td>Taps colleagues and builds alliances based on awareness of strengths and limits of self and organization</td>
</tr>
<tr>
<td>Places solving the problem ahead of growing own organization or personal profile</td>
<td>Cares about contribution to the solution more than attribution of credit</td>
<td>Intentionally seeks to build own skills at feedback, active listening, difficult conversations</td>
<td>Plan-ful, strategic, manages to outcomes, committed to quality improvement, takes informed risk</td>
<td>Brings a learning mindset, prioritizes evaluation, hears constituent voice</td>
<td>Uses influencing skills to leverage partners and resources that would otherwise be out of reach</td>
</tr>
<tr>
<td>Uses values and mission to guide strategic choices</td>
<td>Actively nurtures growth and success of partner organizations as well as own</td>
<td>Recognizes the opportunity cost staff, volunteers and board pay working in the social sector; seeks to engage them in the mission in return</td>
<td>Seeks sector best practice as a guide; exercises sound judgment</td>
<td>Responsibility to constituents is top obligation</td>
<td>Effectively manages relations with disparate constituencies</td>
</tr>
</tbody>
</table>

Source: Leveraging social sector leadership (2015)

Appendix 4 – Framework for Social Leadership

5 September 2016
1. **What is the role and purpose of charities in civic society in England and Wales?**

Charities exist to make a positive difference to society. Their activities range from prevention, providing direct services to those in need and tackling the root causes of poverty and inequality. Their distinctiveness stems from a holistic approach to people's needs and a long held belief that empowering people and making their voices heard builds recovery and promotes justice and transformation. Importantly, charities help build social capital—a requirement for healthy, vibrant and productive communities. Vitally, their independence from the state and their unique values give users (and donors) confidence in the services they offer and the advocacy they promote. As a result, charities can often reach sections of the community that the state cannot.

Locally embedded, needs-led charities are becoming increasingly agile to deliver services close to the ground. They are particularly effective at supporting people whose needs are often overlooked or hidden—minority communities, people in rural areas or causes which don’t receive public support—often with strong cultural relevance and understanding. Charities frequently engage the people who use their services in designing and delivering their offer, including local people who are experts in the social issues and needs of their own communities.

The UK’s large and household name charities also play a vital role in service delivery at scale, in bringing key issues and trends to public attention, being a critical friend of the statutory sector and collaborating with those smaller voluntary sector players in localities and amplifying their efforts.

2. **What are the main pressures faced by charities currently, and what impact have these had?**

Spending cuts of around £20bn from 2010-2015 have affected all parts of the voluntary sector and its beneficiaries. This has been accompanied by a fall in giving, which dropped by around 10% during the recession and has not yet fully recovered. The sector is limited in terms of the investment and trading activities it can pursue to become more financially sustainable. The lack of core funding is making it very hard for charities to fund their essential costs. Short term funding, insecure funding sources and late decision making makes planning for the future difficult. Yet charities have demonstrated great resilience in the face of major changes, and despite a tough environment, and innovation has thrived. Charities have reacted by raising more through fundraising and rebalancing their finances away from government. Yet, as a result of double-dip recession, high unemployment and slow economic growth, there is also a growing demand for the services offered by the voluntary sector. Meanwhile, VAT has been raised—considerably increasing the sector’s cost base—and transitional relief on Gift Aid has ended. This adds up to a period of considerable challenge for the sector. Many voluntary organisations have had to curtail their operations; others have merged or closed. Particular sectors have been hit especially hard:

- The youth sector, mental health and services for women & girls have been badly hit—reducing further already under-funded services.
- Preventative work and early action, often in competition with the funding for acute needs is even more difficult to obtain—a short term saving.
• Small organisations, so often the backbone of community based support for the most vulnerable people with complex needs, are finding that current commissioning is not always suited to them so they are facing decreased funding at a time of increased demand for their services.

• Significant changes to legal aid in England and Wales mean some types of cases are no longer eligible for public funds - including divorce, child contact, welfare benefits, employment, and housing law, except in very limited circumstances. The impact of these changes on the advice sectors and the need for support for very vulnerable people has been overwhelming.

• Infrastructure organisations have also been badly affected by reductions in funding as front line funding is prioritised. The knock on effect to charities means less support to improve delivery, strengthen governance and leadership and develop funding and strategic plans.

Within this funding framework, many charities are challenged by two further issues: a) The difficulty obtaining core and short term funding and sustainability and b) need to demonstrate impact versus lack of skills/resources to develop effective monitoring, evaluation and learning.

New funding opportunities do exist for some, including the UK social investment market. A growing range of support is available for charities and social enterprises who consider taking on social investment and more support is emerging to make it easier for charities and social enterprises to access the finance they need to grow and increase their impact. But social investment is not appropriate for all charities who will continue to need grants or philanthropic capital. Only a small minority of organisations in the sector have had the chance to explore social investment so far, although there may be a number of charities that could seek appropriate investment in the future.

Amongst all the challenge, the squeeze on funding has encouraged some welcome changes in approach – including removing duplication, closer working and sharing of resources, with many charities finding creative ways to reduce costs and improve service delivery.

COMIC RELIEF CASE STUDY:
We recently received 1541 applications for a core funding programme for voluntary sector organisations under £500k, across the UK. Grants of up to £40k over 2 years were available to ‘exceptional’ charities or enterprises, with a priority in areas of multiple disadvantage. We were very explicit about the criteria and the fact that only 100 grants were available. This very high level of interest confirms the needs amongst smaller organisations for vital core funding, to help build leadership, systems and sustainability

3. How do charities seek to innovate, particularly in the digital arena?
Digital innovation occurs in 3 areas: service delivery, marketing and communications, and internal processes. In terms of service delivery, most charities are doing ‘frugal innovation’; the practices of low cost changes without funding using open source software and existing platforms. They pilot activities to see if they work so that they can lead in to big grants to produce proper products. Marketing and communications provide a rich land for innovation through communications platforms, new supporter hubs and uses of data and using tech to
deliver messaging. Internal processes are focused on using new technologies, cloud based services and new communication platforms.

The most important factor to define, however, is what we class as innovation. If it is simply a new method/idea/product that leads to a positive change/value and is fresh to that organisation, innovation continues to be a process embraced by charities of all sizes, albeit on a smaller & slower scale versus the private sector. This could be a simple introduction of conference calling, a new email provider or project management tool. Using Facebook advertising for some in the sector is an incredible step-change with huge risk attached whereas the private sector will have embraced the opportunity 5 years before & have now up scaled their efforts. Charity innovation is thus frequently based on emulating the private sector rather than focused, true innovation. If you truly define innovation as ground breaking in all industries and using innovation as pushing the boundaries to create new value then ‘true’ innovation is incredibly rare with large hurdles to overcome for all but the top 2/3 charities who may have the investment or revenue to deliver it.

The biggest promotion of innovation should be on culture change. Embracing more agile development processes and signalling that failing fast is acceptable and not a waste of money will improve the sector as a whole. Promoting and educating on this, combined with advice and training on dealing with external suppliers will go a long way to changing the innovation landscape. There needs to be more technology and innovation funders and support agencies like CAST, Technology Trust and Nominet Trust. Overall, charities need to have appetite for innovation & digital but funders must encourage it and be willing to accept risks as not all innovation succeeds.

Barriers to innovation sit within 4 key areas: size of the organisation, people in the organisation (leaders and talent), risk of investment and rate of digital change.

Rate of change:
Even within digital, the challenge is that the rate of digital progress is so quick, it is hard for those without substantial investment to keep up. The knock on effect is that the forever chasing mentality sets in and charities stop doing the “basics” thus impacting true innovation taking place.

Investment risk:
Investment risk falls under 3 factors: funding sources, internal ability to invest and the risk associated with something ‘new’. A charity applying for funding for digital innovation is still rare as there are not many digital funders and many accelerators/VC-type investments don’t work for charities as they cannot guarantee high financial returns. Limiting the actual investment available becomes a substantial barrier to promoting a culture of innovation. Moreover, taking risks and being innovative can be anti-intuitive because publically failing can affect relationships with existing and future funders. The sector is also hampered by tiny budgets compared to other sectors. The sheer investment needed to deliver results is out of reach for most charities. Aside from one or two big players (Cancer Research UK) who have the revenue and budget to innovate or use digital advertising effectively, most charities (even big ones) do not have the fire power to build modern marketing offerings. The risk in halting existing offline marketing techniques is too great as they are the life blood of most charities.

People:
There is difficulty securing the right talent to deliver and drive change (typically for salary reasons) which creates a drain in knowledge and will. As a result, there is a lack of understanding on where and how to obtain reputable external digital partners (primarily private sector) and how to manage contracts with them. This leads to an environment which lacks a broad portfolio of role-models for digital change and highlights failed digital charity models.

4. What skills are required to lead and manage a charity?
Many skills required to lead and manage a charity are the same as those required to lead and manage any commercial or not-for-profit organisation. As expected, successful organisations require of their leaders:

- Outstanding leadership and direction
- Tight control of finances
- Strategic thinking
- Excellent communication skills
- Relationship building, excellent influencer and negotiator
- Investor in people
- Ability to make good use of technology and digital to drive effectiveness

However, in the charity sector senior executives often cite the following skills as imperative to being able to lead a successful charity:

- Having commitment and passion for the cause
- Being able to discuss and advocate the cause with a diverse range of stakeholders
- Demonstrating humility
- The ability to do less with more
- The ability to measure and demonstrate impact
- Supporting the effective governance of the organisation through working with a Board of Trustees
- Fundraising

The charity sector is well versed in making best use of its resources. On the job training, as well the use of mentors, are key for leaders in this sector. Most colleges, business schools and courses offer charity discount, so access to high quality leadership training, such as that of Roffey Park or Henley Business School, is not off limits. The sector is good at sharing knowledge and best practice so valuable skills are gained from networking, conferences and meetings.

5. What role should trustees play in the performance and effectiveness of a charity?
Charities vary in size and therefore the level of necessary delegation will inevitably vary. Nonetheless, trustees must always be actively involved in establishing and managing the framework through which the charity’s performance and effectiveness is measured, reviewed and optimised. This may be done through (e.g.): (i) articulating clarity on purpose and direction of travel (ii) providing leadership on certain project streams or specific areas of the charity’s activity that reflect their own skills and experience; (iii) being accountable (and holding committees and/or management to account) for achieving key objectives (e.g. cost savings, fundraising targets, ROI evaluation results, best practice standards); or (iv)
using their experience or own network to benchmark the charity’s performance and effectiveness against that of other charities. Along with the ‘harder’ skills, trustees play an important role by displaying soft skills around supporting the executive. The Board need to operate as a team.

Trustees can be supported in those by training (which already exists through many sources), coaching and a support network made up of other experienced trustees. The quality of the Chair of the trustees plays a vital role in supporting trustees, particularly to understand what is required of them as individuals and as a group – the skills (hard and soft), networks, time commitment etc. Financial management, governance and fundraising skills are a particular priority. Bodies like the Charity Commission should be adequately resourced to provide timely support in difficult situations (e.g. suspected serious incidents that require investigation and guidance). Current guidance available through the Charity Commission is helpful and well-produced, but in practice a more active body which charity Trustees feel they can turn to in order to help prevent issues at an early stage is required if the government is to play a role in improving the perception of charities and their performance.

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

To be properly accountable to beneficiaries, donors and the general public, charities must ensure that they are genuinely committed to transparency, with a strong set of policies and principles. Transparency is not simply being compliant, but being confident, rigorous and proud of your work and clear about the success it has achieved. When a programme has not worked as hoped, the need for transparency and accountability is even greater to enable the charity to explain the reasons why and learnings.

It is important to be proactive about building a dialogue with beneficiaries, donors and the general public, regularly asking for insight and feedback into what information each group wants and how they want to receive it. Enquiries or complaints must be taken seriously, and charities should not only respond to the individual enquiry but also look for trends, using them as a ‘litmus test’ of performance. The exchange of information between charities and their stakeholder groups builds trust. It also helps to monitor performance, giving crucial insight needed to improve practices.

A focus on building public trust, particularly through demonstrating the positive impact of charities, is essential to long term success. A genuine and consistent commitment to transparency and accountability is essential – it cannot be an optional extra. Although there are initial costs involved, transparency and accountability offer a positive business benefit through increased trust. Building trust in the sector as a whole by working with other charities and sharing information/best practice should also be integral to how charities work.

To assess long term viability and/or sustainability, charities must build in regular assessment of the external environment and have the flexibility to adapt to changing circumstances and needs. They must have a rigorous monitoring and evaluation programme to measure their effectiveness and impact. They must also be brutally honest when forecasting the need for
their services, and adapt dynamically to provide the most appropriate and effective support to beneficiaries.

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

Current challenges to financial sustainability include:

- Falling returns on cash/investments – further lowering of the base rate and volatility of investment returns make financial planning harder and reduce available resources. This impacts both foundations and the organisations who rely on their funding as well as any organisation using bank interest/investment return to cover an element of costs.
- Continued economic uncertainty – corporate partners focusing on core activities over CSR, potential economic downturn likely to impact discretionary spend and therefore public giving, weakening of GBP reducing overseas purchasing power and therefore reducing activity
- Loss of EU funding – anticipated gap as and when this is withdrawn following UK’s exit from the EU
- Public attitudes to charities – unclear how much this impacts on fundraising but can’t be ignored
- Additional costs of implementing/ensuring compliance with data protection regulations (GDPR) and Fundraising Preference Service
- Anticipated decline in donations due to FPS restrictions plus likely increase in competition for the available ‘public pounds’

These challenges impact on efficient resource and risk management as financial uncertainty makes it difficult to develop resource plans and increases the likelihood or impact of risks. There is an underlying danger that charities may be tempted towards greater risk in order to maintain operations, in the hope of an imminent up-turn or change in fortunes which may not materialise.

How these challenges can be overcome:

- Continued focus on charity tax landscape – effective Gift Aid process (shared declarations/publicity of GA as a ‘good thing’ to offset falling income elsewhere) and review of VAT exemptions offered to charities (to reduce irrecoverable VAT burden)
- Effective and comprehensive consultation prior to launch of FPS so that proposals deliver the desired objective in most cost efficient/income neutral manner
- Positive messaging, by government and others, positioning the core role played by charities in the UK and internationally
- Clarity on availability of government funding and areas of focus over the medium to long term
- In-sector collaboration to maximise impact with available resources, shared learning and evaluation

How best practice and information can be shared across the sector:

- The sector is well served by existing networks, e.g. CFG, BOND, Mango, NCVO, ACF etc.
- There is a constructive and open attitude to sharing and working together
The benefits and challenges of charity funding being derived from commercial contracts include:

- **Benefits**: diversification of income; often multi-year in nature, therefore offer some degree of certainty; potential to increase reach through shared activity/brand recognition.
- **Challenges**: aligning mission sufficiently for the sake of securing funding; brand risk by association; managing commercial contracts requires specific skills and can be time intensive.

9. **What should the role of Government be with the sector?**

Over the last few years, the role of charities in public sector service delivery has experienced an important shift. Whilst public service delivery contracts can provide opportunities and funding to some (particularly larger organisations), which helps ongoing financial and organisational sustainability, many medium sized organisations have found themselves in a vulnerable position when commissioners look to cut public expenditure even further. The changing priorities of commissioners over time can also have an impact beyond finances – potential ‘mission drift’ amongst charities who are desperate for funding and whose independence and priorities can be undermined in order win vital contracts. However, for the majority of the sector, contracts are far from reach.

**IN SUMMARY** – the role of government should be to facilitate and enable an independent, responsive and thriving voluntary, community and charity sector, which is one of the most sophisticated and diverse in the world – we should treasure it.

The government should also ensure that definitions of public benefit resonate with contemporary society, and develop holistic processes within the statutory sector for assessing the value of charities and not just their cost (in commissioning). Constructive critique from a community perspective is a healthy part of developing and delivering support and services for the UK’s most vulnerable people – charities have a crucial role to play in this regard.

Where there is any systematic attempt to defraud or subvert core charitable purpose, a robust legislative framework helps to bring about sanctions and prosecutions where necessary. This is important for maintaining public trust and confidence in charities. However, these approaches need careful checks and balances and regular updating, to ensure they remain proportionate and relevant.

Finally – the role and purpose of the Charity Commission, which is instrumental in some of these matters, needs a clearly defined and communicated mission for the modern era. It should be equipped and resourced appropriately for its core purpose with the right technology, people and skills (the Board and across its staff team at every level).

*5 September 2016*
Common Vision (C0Vi) – written evidence (CHA0136)

Introduction

This is a submission to the call for evidence issued by the House of Lords Select Committee on Charities. The Select Committee was set up in May 2016 to consider issues related to sustaining the charity sector and the challenges of charity governance. The inquiry aims to understand the pressures which charities face in order to make recommendations to the UK Government and others with a role to play in ensuring charities have the resources to meet their charitable purposes.

CoVi (Common Vision) is a think tank established in 2014. We curate and develop research and discussion which aligns the behaviours, expectations and values of the millennials with long-term intergenerational goals around the common good. Using creative and crowdsourced methods, we aim to promote civic engagement beyond a politically active minority.

Background

Over the course of 2015 Common Vision (CoVi) worked with a number of civil society representatives as part of an initiative examining the role of charities and voluntary organisations in contributing towards “common good”. We used this term as the framework for our discussions to encourage a debate beyond established partisan interests or sector-driven perspectives. Many charities would argue that their work furthers the common good by enabling all members of society to flourish fulfil their potential, but institutional self-interest has also strongly influenced the behaviour of the sector in recent years. Driven by external pressures as well as internal failures, there are actors and organisations within the charity sector who have prioritised their own fundraising ambitions or failed to work collaboratively with others, instead of working for the common interests and shared values of society as a whole. These failures have led to recent negative media attention and contributed to public distrust.

Our response to this consultation is based on a paper, Charities and the common good, which we published earlier this year. We are aware that the current economic and political climate – and macro-level social and technological change – presents uncertainty for many charities, often coupled with a sense of lost identity. However, our discussions have highlighted ways in which the sector can be distinctive, and maintain their social mission and founding values, while facing the future. This response shares our learning on the positive opportunities charities currently have to strengthen organisational purpose, understand their environment, and navigate external forces.

Consultation response
Based on our deliberations with representatives from charities, voluntary organisations, and those with experience from the private and public sectors, this response focuses mainly on the question which asks for views on the role and purpose of charities, and the attributes which make them distinctive from other organisations doing similar work. It is in reflecting on this question that we also consider the opportunities for charities in the current environment and how digital innovation can benefit charities. The following response seeks to address these areas by highlighting three core principles which provide distinctive ways in which charities could view their contribution to the common good in future.

**Promoting public friendship and a positive national story**

Our society today is often characterised as one in which people are apathetic and disengaged with institutions and each other, favouring individualism over collective responsibility. Charities have an important role to challenge this civic disengagement and distrust.

Public friendship is a crucial principle because one of the roles that charities and the voluntary sector have historically played is giving an independent voice to the “voiceless” in the democratic process. Without a sense of shared purpose and common cause with others within and beyond the sector, this voice is less authentic and impactful. To be successful, social movements need to be collective endeavours.

Charities have rightly focussed on advocacy – seeking to secure the best possible conditions and greatest share of resources from the state for their beneficiaries, and in pursuit of their social mission. However, they have also been known to engage in the politics of blame, and “othering”. With so much antagonism and negativity dominating the public debate, charities best serve politics when they voice a positive national narrative about the common issues which bind society. Speaking on behalf of those who do not speak individually does not have to be angry in tone.

In our networked society, in many ways citizens are more empowered and connected than ever, enabled by technology to make more instantaneous and better informed decisions. Using positive debate to influence people to make small scale and incremental behavioural changes - how we engage with the places and spaces around us, where we shop, how we interact with our neighbours – can be an effective use of this independent voice. The opportunities to promote positive behavioural change at a local level, within workplaces, or through social networks, may provide some direction for the resources expended by charities on their activities.

**Providing long-term stewardship of resources and relationships**

The global financial crisis raised critical questions about the short-term rationality of markets and private enterprise focussed on shareholder value, and how this conflicts with...
the long-term interests of societies. Charities and voluntary organisations, on the other hand, are founded with a long-term mission. By definition they are independent of commercial pressures and the need to realise profits. This enables them to challenge market failures where the common good is not served.

Demographic change and issues of intergenerational importance such as climate change make the stewardship role of charities with respect to social assets and relational capital ever more vital. However, pressures on the sector mean that for some organisations, stewardship has become secondary to being service providers for the state.

Stewardship can be a radical as opposed to risk-averse function. Some civil society organisations are already using the resources they are entrusted with to leverage other resources, generating “multiplier effects” within the wider community. The ownership and management of community assets is one way in which many civil society organisations can use local resources whilst preserving community benefit in the long term.

Neither does stewardship of assets need to be financially unsustainable. The growing “social economy” demonstrates that business models can be successful and attract investment even when profits are recycled for further social and environmental purposes, rather than for private gain.

Community groups and civil society organisations are also uniquely positioned as stewards of social assets. The relationships and insights of organisations working at the grassroots mean they often best understand how to use softer local assets such as the knowledge, insights and time of people – which are often not valued in the commercial world. By contrast to large-scale, standardised models of service delivery, community-led services are often more adaptable and effective in their response to social issues.

**Providing platforms for sharing**

In addition to the different models of ownership and value creation mentioned above, recent technological changes have shown that different transactional models are possible. There is enormous untapped opportunity to use technology to value the resources which are unique to charities and voluntary organisations, including time, sweat equity, and emotional value such as local pride and heritage.

Of course, digital technology has been used by charities extensively in relation to fundraising and stakeholder outreach. However, whilst platforms such as JustGiving facilitate interpersonal networks to unlock charitable giving, the currencies used are in large part still financial. Digital platforms may also present an antidote to the instrumentalisation of charities. Unconditional giving, of both time and money, is something that is unique to charities. This can be enabled and extended through digital platforms which provide opportunities for sharing, knowledge exchange and peer support amongst the wider public.
Digital marketplaces have provided critical infrastructure for new working patterns and resource exchange in the commercial sector. The “sharing economy” is a term widely used to describe transactions or consumption models based on pooled resources. However, the vast majority of popular sharing platforms are privately owned and therefore geared towards profit making. For example, Uber and Airbnb allow individuals to rent their personal resources via a commercial transaction. Many digital platforms also benefit from the exchange of personal data from the user.

There is untapped potential for charities to own and maintain similar platforms which facilitate and benefit the “digital commons”. As custodians and stewards of common assets the charity sector would be well placed to counteract monopoly effects online where users must give up private data in exchange for access to networks, marketplaces and information. Charities and voluntary organisations, with their human insights, local knowledge and grassroots relationships, should not be afraid to collate and use the data they steward. Of course there are ethical implications around privacy, but just as aggregate, anonymised data is used to improve healthcare and education outcomes for example, so too can it be used for social and community impact. If charities can apply sharing principles to their digital as well as physical assets and take on a stewardship role in the digital commons then this would serve the common good for years to come.

5 September 2016
1. What is the role and purpose of charities in civic society in England and Wales?

- In England and Wales, charities belong to the VCSE (Voluntary Community and Social Enterprise Sector). Their role is to provide a range of services and support to different groups and service users. They are also to be independent of government and be not for profit, with any surplus being reinvested to support the charities’ aims. Their purpose encompasses a huge variety of areas. For example, whilst some organisations might focus on caring for and advocating on behalf of the elderly, others provide services for the disabled, some for children, victims of crime or abuse, and other organisations might centre the role on raising funds for needs either in the UK or abroad.

- Since 2010 levels of hypothecated government funding have decreased, bringing with it significant changes. One example is the introduction of the Care Act, with a focus on how the VCSE sector can contribute to delivering the health and social care agenda. Increasingly, charities are being relied on to fill the voids created by dwindling state recourses. Local commissioners are increasingly being asked to give more thought to the VCSE sector as a crucial provider of services of universal support. In 2016 charities find themselves under increasing pressure from government to perform, whilst facing the force of remaining sustainable, mainly via searching for their own funding.

- Locally, charities are the interface between service users and local government, identifying and supporting large groups of needier people and are a conduit to a local ‘voice’. Nationally, charities campaign for social change and create profiles of the most vulnerable members of society.

- What role can charities play in community cohesion and civic action?

Charities have the ability to play a hugely significant role in civic action and community cohesion. They have the power to bring people together via being proactive and helping support the local community. They can lobby for local causes, and represent the community they serve.

- A factor that makes them distinct from other organisations carrying out similar work is that members of charities are often also members of the communities they serve. This means their purpose usually offers an excellent insight into the situations of the local people they serve. Therefore, a general role of the sector is additionally to provide a voice for individuals, or to be able to signpost them to a suitable organisation that may be able to further assist them.

- The sector benefits hugely from volunteering, one way being economically. For example, the Chief Economist at the Bank of England estimates the value and size of
volunteering to be roughly £50 billion a year. This translates into 3.5% of annual UK GDP, and is around equal to the size of the national education budget.  

Thus, volunteers that are passionate about a charities cause and willing to give their personal time are incredibly valuable to the sector. For the London Borough of Bromley, its recent ‘Asset Mapping’ report confirms this. It estimates that in Bromley alone, per year, volunteer hours contribute £12,826,320. An impressive figure, it is evident to suggest that volunteers are vital to charities, that they are the ‘lifeblood and backbone of many organisations.’

**How has the status of volunteering changed?**

- Funding emerges as the most prominent challenge faced by charities in 2016. Balancing the demands and pressures of reducing budgets, whilst maintaining a high quality if service according to the national industry standards. With the effects of the integrated health and social care agenda still viewed as ‘unchartered territory’ by many charities in Bromley, the sector is arguably going through a period of uncertainty. The ambiguous nature of what lies ahead certainly represents a challenge to charities. Recruiting the right trustees – a main challenge found to be faced by local charities is ‘recruiting or developing trustees particularly with commissioning skills.’ In our Asset Mapping report, for instance, it was found that 49% of respondents to the survey expressing that they currently had trustee vacancies. The report states how some charities have to be careful ‘to avoid candidates that only want something for their CV,’ and how ‘it is difficult to access the right individuals with the right skills’. Indeed, without a strong, efficient team of trustees, a charity is vulnerable to weak leadership and strategy. Thus, a main challenge to charities is to be able to find, and keep experienced trustees that can bring the skills, knowledge and leadership needed to ensure a charities’ sustainability.

- The challenges charities face can only be overcome through a number of ways. Firstly, charities must review and improve their individual strategy. Through having solid foundations, charities should be able to function in a sustainable way in every area. Once this is in place, the second way of coping with the challenges faced is for all charities to realise they are stronger working together than alone. It would be beneficial to share more resources, and have charities collaborate through more partnerships. This would enable the sector as a whole to be more resistant and coherent. Even though this cannot guarantee challenges will be met, this report views the notion of a strong core strategy and better intra-sector working to be a viable means to attempt to cope with the challenges faced.

- Secondly, charities must have access to funding resources. Whilst public donations are always welcome and gratefully received, funding for charities has fallen consistently year on year from both central and local government. Simply, if charities cannot secure

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185 Andrew G Haldane, ‘Why volunteering is good for the economy’, The Independent, 22nd December 2015
188 ‘Bromley Asset Mapping Research Report’, Community Links Bromley, March 2016 p27
funding via other means, grants for example, it will be incredibly difficult to overcome the increasing demand on their services that they face.

- Thirdly, charities must have the support they deserve from organisations such as the Charity Commission and their local CVS.

2. **What are the main pressures faced by charities currently and what impact have these had?**

- There are a number key pressures that this document recognises. Firstly, a main pressure is from funding. In the early 2000s, charities had access to a large pool of government funding. Since 2010, however, this funding has decreased. Thus, the ability to find sustainable funding emerges as a key pressure. Secondly, it is arguable that the period between 2000 and 2010 worked to broaden the VCSE sector in general. However, this does not mean the sector developed into a robust one during this time. Today, charities find themselves also struggling with aspects such as recruiting trustees and finding strong leadership. With recent scandals appearing in the national press, it is also apparent that a third pressure for charities is to remain accountable to those they serve, and hold the general public’s confidence. If charities do not have the funding and tools they need to prove they are set apart from any foul play, it might be impossible for some to continue operating.

3. **How do charities seek to innovate, particularly in the digital era?**

- One way that charities can innovate, focussing on the digital era’ is to use systems such as ‘Give as you live.’ This is a practical solution for both charities and consumers, as it is a user friendly, online site that raises money through online shopping. As of the 25th August, ‘Give as you live’ has raised ‘£7,480,067.76 for over 8,500 charities.’ 189 This is a testimony to the power that technology can bring in helping to support charities.

- Another way to transform a charity is to utilise social media. Engaging in communication with your supporters in a direct way releases a world of opportunity. Not only is it low cost compared to traditional media, it can also reach out to a far wider range of people, of all ages, in different countries around the world. Keeping social media up to date is key to keeping people interested in the content you have to share. It would be a shame for charities to not make use of the social media outlets available, such as Twitter and Facebook.

4. **What skills are required to lead and manage a charity?**

- A varied and wide range of skills are required to successfully manage and lead a charity. Only a few key skills have been selected for the purpose of this answer. There must be a strong skillset based in accounting and finance, so that a charity can have a transparent and clear plan in regard to funding and secure income generation. This is to be combined with strong administration skills that are useful in writing

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correspondence and filing on behalf of the company. There must be a good skillset in marketing and communications, resulting in how to effectively promote and campaign for a charity. Furthermore a charity needs individuals who have experience in the voluntary sector, and ideally board and experience in strategic planning. Finally, a charity also needs a sound skillset in legal matters, so it can be sure it is complying with best practice and necessary legal requirements.

- Charity leaders need to be able to scan their environment for opportunities, keep a focus on quality and maintain an excellent organisational reputation.

5. What role should trustees play in the performance and effectiveness of a charity?

- Trustees must support the aims, values and ethos of a charity and be dedicated to helping to ensure the performance and effectiveness. They act as a ‘critical friend’, providing external and / or expert challenge to a charity. They should give their time freely to attend regular board meetings and have a clear understanding that they are responsible for the charity and its achievements of its objects. They need to undertake regular skills audits, recruit to any gaps and understand the importance of sustainability. Trustees should oversee the strategy, seeking progress against targets regularly and should be familiar with risk registers.

6. How can charities ensure they are properly accountable to their beneficiaries, their donors and the general public?

- One way of ensuring accountability is to be sure that charities are clear with what they do, and the outcomes they produce, especially when it comes to dealing with funding. To do this, charities can ensure that they have a clear mission statement and contemporary aims. Charities should maintain accounts and have a cohesive yet clear and accessible annual report. They should have regular planned and effective board meetings. In order to further ensure they are properly accountable, charities should be easy to contact and information should be readily available.

7. What are the current challenges to the financial sustainability, as well as efficient resource and risk management for the sector?

Current challenges include the loss of ring-fenced funding and grants. Also, payment in arrears is a big issue for the sector. Risk management will always be a priority for charities, albeit an expensive one. It costs hugely to be as risk free as possible. Costs continue to grow alongside ever-dwindling funds and charities have to make tough choices about what it can do with its resources to achieve its aims.

8. What should be the role of Government be with the sector?

- Generally, the role of government should be to support the sector in the context of national policy framework. It should promote the positive aspects that charities contribute to society. This has been seen in recent years, an example being the ‘Big
Society.’ Whilst this has arguably been a failure, it shows an example of how government can work for the sector.
- It would be useful to the sector if Government could create the space an opportunity it needs in order to flourish, work well together when working in partnership and direct local government to listen and respond.

- Local government should encourage a strong VCSE sector within its own borders. It should promote the value of charities and work in partnership with them.

- This report views the overall role of the Charity Commission to be to enable and progress the sector. The advice it provides should be concise, clear and accessible for charities, no matter their size. Its role is to be accountable for the judgements it makes, and it should be to regulate charities and provide the public with confidence in the Charities they support. It should not be solely target based in its actions, as this prompts concern that the Charity Commission is jettisoning the ‘human aspect.’ This can be highlighted by the ending of the ‘hotline’ that once provided immediate advice over the phone. It is felt that the online form and postal offer miss out this human contact.

**Sources Used**

Andrew G Haldane, ‘*Why volunteering is good for the economy*’, The Independent, 22nd December 2015


*5 September 2016*
Community Sector Coalition — Written evidence (CHA0171)

Written by Dr Matt Scott, Community Sector Coalition

Question 1:

Key point: Government and many parts of the Charity Sector consistently exaggerate the role and value of the charity sector, to the detriment of wider voluntary and community sector (VCS) groups and civil society organisations (CSOs). When seeking to discuss policy making beyond the role of the state (central and local) and private sector, the lazy and misleading assumption is that this ‘third sector’ is made up of largely charities and possibly a few social enterprises. In fact when considering wider social action, charities should be accurately reflected as being an important but minor proportion of VCS and CSOs.

Before 2010 there was a general understanding that the voluntary and community sector consisted of both informal community groups and larger more formal voluntary organisations, invariably charities. Thus DCLG has written that 9 out of 10 groups of so-called voluntary sector are community groups:

Almost 90% of the so-called Voluntary and Community Sector is made up of community groups. They are the backbone and building blocks of a democratic society

Source: Third Sector Strategy for Communities and Local Government June 2007 Discussion Paper DCLG

Key point: Government spends too much time focusing on charities when, in order to promote the ‘good society’ and wider charitable objectives, it should consider all VCS and CSOs.

More than just charities

Over recent years public mistrust of charities has grown markedly (Charity Commission 2016). Whilst there have been egregious breaches that have made national news including Kids Company and aggressive telesales in the pursuit of fundraising there is a deeper public unease with charities become removed from the communities they serve and indistinguishable from public and private bureaucracies, with a deracination of role and purpose.

At the same time the narrative used within the commanding heights of the VCS and government serves to diminish its size, scale and vitality by hitching it to the damaged brand that is ‘charity’. Notwithstanding the dedication of the majority of charities whose work has become tarnished, because of the association with an increasingly aloof elite, who have monopolised voice and funding the real story is that the ‘sector’ is over; a rump of national charities are on the losing end of an existential crisis. Having let government define their purpose, insisting that groups become contract ready’, there are no contracts, there is nowhere to go.

Over recent years the voluntary and community sector has consistently and deliberately been misrepresented. The consequences yield short term advantages for the more formal
Community Sector Coalition — Written evidence (CHA0171)

charity sector but in the longer term is both ethically questionable and tactically inept. More to the point it does wider society little good, as the untapped potential of voluntary and community action is occluded.

If we accept that most people don’t really know what the VCS / sector is, then the short hand of ‘charities’ usually suffices. However this ‘understanding’ short changes the majority of community groups who are not charities.

It was generally understood within the sector that there were a lot of small community groups with no money and a smaller number of organisations with a lot more money and the two wings of the sector could rub along as part of a broader continuum – the voluntary and community sector, or Third Sector, as New Labour dubbed it. Indeed (Sir) Stuart Etherington, speaking at the NCVO national conference in 2012 challenged those who would make the divide between voluntary and community sector groups – it was part of the same thing he claimed, a no one should divide it.

Yet at the same time the researchers at NCVO were busy deploying a methodology that did just that. The 2009 Almanac spoke of 870,000 civil society organisations ranging from ‘small community organisations through to a significant number of large organisations’. The table of organisations on page 9 noted that over two thirds of this total was ‘informal community organisations’ of which the data quality was ‘poor’. The 2010 Almanac repeated this estimate, dubbing the 600,000 community organisations as ‘below the radar organisations’. But further iterations of the Almanac proceeded to write them out of the script, in favour of a ‘general charities’ definition, i.e. that only charities counted as voluntary organisations. So what happened to the voluntary and community sector? What happened to small informal community associations? If there are only 160,000 or so charities but three or four times as many community groups, who we had got used to thinking as part of the broader ‘sector’, where did they go?

To many researchers, statisticians and policy makers, if it cannot be measured, it doesn’t exist. With the Charities Commission there is a register of charities, hence an independent variable. We can speak precisely about all of them. Increasingly the media, government ministers and right wing think tanks have done just that. With community groups that lack formal governance and a register, to quote NCVO, the data is ‘poor’; we cannot speak precisely about numbers, budget and workforce but, like Isaiah Berlin’s hedgehog190, we do know one very important thing – they outnumber charities several times over. We also know they generally hail from the grassroots and thus have the kind of credibility the charity sector has lost. So it was an own goal to put such a lot of distance between these two wings of the sector.

NCVO’s use of the ‘general charities’ definition at a stroke allows them, as the self identified lead voluntary organisation, to imply if not indeed, assert that the voluntary sector is co-terminous with the charity sector. Those who works at a local level knows this is not the case; voluntary activity springs from the collective action of community groups, with or without the more distant mediation of charities. If the voluntary sector is supposed to be

190 Berlin expands the idea of dividing writers and thinkers into two categories: hedgehogs, who view the world through the lens of a single defining idea and foxes who pursue a variety of ideas (The hedgehog and the fox, first published in 1953)
about voluntary action then it has to encompass the collective action of informal community groups.

This definition works for charities but it doesn’t work for the far larger constituency of groups formally known as the voluntary and community sector. Charities, under this measure have declared a form of UDI and frozen out the more numerous and poorer community groups from consideration, not just in the presentation of the sector in the Almanac but also in wider policy making.

Interestingly there was no debate about this shift. No one asked local groups if they wanted to be inside or outside of a ‘charity sector’. Nor does the charity sector want to lose the credibility that comes with being part of a wider informal sector, albeit charity is now an irredeemably damaged brand precisely because of the unscrupulousness with which it adopted the volte face. Happy on the one hand to chase after respectability of formal organisations, equally desperate to claim to be part of a social movement of organisers and activists, however improbable that may be.

If the facts on the ground are that most voluntary and community sector groups are not charities. Nor are they social enterprises. They are overwhelmingly community groups. What are the consequences of this elevation and separation of the charity sector? Who benefits?

Firstly the most powerful and wealthier charities monopolise resources and assume speaking rights – if there are only charities, then it makes sense that only they should receive funds, benefit from policy and assume speaking rights about the ‘sector’. This overt inequality was in evidence in the previous decade and has since become institutionalised. In 2007 the Cabinet Office noted that small and medium size charities had got smaller, at a time when there had never been more money in the sector. It needs to be underlined that this only the tip of the iceberg, we are still fixating on charities, even within the charity sector structural inequality became the operating norm. The hundreds of thousands of community groups were off the map, terra incognita. The takeaway message - the wealth did not trickle down. In the Blair era, under third sector modernisation it could have been different, another sector was possible. The funding and power could have been shared and spread more evenly. Now with little funding there is only power, and it continues to retreat to ever few places in the sector. When the scale of the sector is appreciated it becomes harder to justify such a massive expropriation of voice and funding, so a formal separation makes perfect sense

Secondly ministers benefit because they can assert their hegemony. The sector is constantly being disciplined (and punished) through market driven regimes of commissioning, procurement, impact measurement and other tropes that put ever greater distance between successful subcontractors in the sector and the rest. Government gets to name the sector (from VCS to third sector to civil society and social enterprise) and determine what purpose it serves – service delivery, welfare provision and general dismantling of the public sector. Many have bemoaned the loss of independence but there
is an overwhelming silence from charity leaders. Belatedly (Sir) Stephen Bubb\textsuperscript{191} might claim never to have known a worse time for relationships but having for years presented itself as an outrider for all and any government ‘reform’ the leading lights of the charity sector have nowhere else to go.

The sector unravels. Charity chiefs feel under attack as never before. Perhaps some might reflect on how the wounds hurt all the more because they are self inflicted. Since the millennium the sector has experienced both hypertrophy and atrophy. After New Labour the Coalition and new Conservative government, spurred on by libertarians in the IEA have realised they don’t need the sector, when A4E, G4S, Serco, Capita and others can deliver privatisation instead – no wonder the current minister Rob Wilson feels ‘agnostic’ about the sector and when timid voices are raised in protest the former minister (Brooks Neumark) scolds them ‘to stick to the knitting’.

One recent example of third sector press bias is perfectly captured by the Guardian which managed to consolidate top down myths about the sector by reproducing wilfully inaccurate statements such as:

\textit{“Despite making up 97\% of the sector, small charities are disproportionately being hit by funding cuts, complex commissioning practices and changes to fundraising regulations”}.\textsuperscript{192}

Becca Bunce, policy and public affairs manager at the Small Charities Coalition

Wrong. Small charities do not make up 97\% of the sector – not even close to it. In fact the majority of groups which do make up the sector couldn’t care less about the special pleading around changes to charity regulation for the simple reason that they are not charities.

With regard to volunteering – most volunteers do not volunteer for charities. They are arguably less well served by working for charities than working for more informal groupings – an idea pursued by Cormac Russell of Nurture Development, who has argued that charities in effect co-opt and exploit volunteers, who are better off in a more autonomous role

The challenges outlined can be overcome by a more accurate representation of the scale of social action and the minority role of charities to date in grassroots social action – how we see the problem of charities, is the problem, in this respect. We need a broader vision and understanding

\textbf{Question 2:}

As covered above. The opportunity is to reframe social action in a wider perspective that mobilises voluntary effort beyond the bureaucracy and limitations that is charity governance

\textsuperscript{191} Bubb, S (2016) Charities relationship with government has never been so bad. Civil Society http://www.civilsociety.co.uk/governance/compliance/interviews/content/21794/sir_stephen_bubb_charities_relationship_with_government_has_never_been_so_bad Accessed 5th September 2016

Question 3:

Excellent question: the work of David Wilcox and Drew Weston cover many useful ideas around digital innovation and social action, alongside work by Super Highways in LB of Kingston.

We need to consider whether social action needs ‘platforms, not organisations’ and specifically much less emphasis on the hide bound formulas offered by charities. Hackathon groups are well placed to explore these issues and develop solutions that disrupt and improve the charity sector performance

Question 4:

Unfortunately the managerial skills to cover audit are often the ones that alienate residents who fail see any difference in service and values between a charity and a local statutory bureaucracy. More focus on entreprenurialism and community development skills (CD NOS) would build charity congruence and credibility.

Question 5:

Trustees all too often are distant from the day to day running, thus governance is squared between a chair and treasurer and the CEO whilst trustees symbolically turn up to 3 or 4 meetings a year with little strategic input made. An effective chair would seek to broker wider ownership of trustees with decision making between formal board meetings and facilitate informal learning opportunities, whereby staff, trustees and service users interact

Question 6:

Well attended public meetings, including AGMs. Greater involvement of service users in governance

Question 7:

As per previous answers

Commercial pressures risk mission drift – the work of the Barings Commission, Civil Exchange and NCIA (National Coalition for Independent Action) cover these dilemmas extremely well

Question 8:

Unless risk is managed they will remain an irrelevance to most of the charity and wider VCS because they will not be understood and not taken up.

Question 9:

Local government needs to take a proactive and enabling role with a clear investment strategy for the local VCS / charity sector that reaches a wide cross section of groups not a few favoured sub contractors who may or may not be charities

The Charity Commission needs to consider whether it has the resources to be an effective monitor. It also needs to resist becoming a political football, notably the campaign waged
by the charity Institute of Economic Affairs, has proved corrosive to wider goodwill needed to generate a resilient society by its negativity and political agenda to discredit the charity sector.

**Question 10:**

Ireland and Scotland have made far wider use of the CD NOS (Community Development National Occupational Standards) to inform their commissioning, procurement and managerial systems. Brazil has used participatory budgeting via Porto Allegre and there is excellent practice across the world from which we can learn, noting that increasingly our citizens are transnational themselves, thus we need a transnational focus to add value and to connect successfully with our communities.

*30 September 2016*
Community Southwark — Written evidence (CHA0075)

About Community Southwark

Community Southwark is a voluntary, and community sector (VCS) infrastructure organisation that supports, enables and empowers all communities in Southwark to develop the ability and make the most of opportunities to fulfil and exceed their potential. We achieve this by creating strong foundations that supports all voluntary and community organisations, communities and individuals in Southwark to work together to improve practice, shape futures and change lives. 71% of the charities we provide support to have an income of less than £25k.

London Borough of Southwark

There are over 1,200 charities registered in Southwark, of which 40% are defined as ‘small or medium sized’. These charities serve a borough that is ethnically diverse and densely populated. 52% of the borough’s population belongs to the White group and 48% to the Black, Asian and Minority Ethnic group. Southwark is the 9th most densely populated local authority in England & Wales. Southwark is twice as densely populated as the London average.

It has significant contrasts in wealth and poverty. It is the 41st most deprived borough in England and the 12th most deprived in London. There is wide distribution in educational achievement, access to employment and housing quality.

1. What is the role and purpose of charities in civic society?

The VCS is (arguably) better placed to reach those seldom heard groups who may mistrust statutory services. VCS organisations often provide services in areas where high levels of trust are required (such as domestic violence services and homelessness services). They have a high level of ability to build and maintain trust with service users. This could lead to health interventions, and prevention, being more effective with social groups that may have a distrust of health and social care services.

The VCS may be better placed to provide health and care services in a more cost-effective way because it has better access to local assets, and is able to use them to improve health outcomes. The use of social assets to support service users (such as volunteers for example, who provide a befriending service) can result in both improved health outcomes, and cash savings, as this support is provided for a lower cost than social care support services.

There is a strong role for the VCS in establishing and supporting peer support networks and self-care for those with long-term conditions. The VCS is better placed to do this than the statutory sector as it can have a better reach into communities, and be more embedded in the communities in which it works. VCSE organisations are often able to refer service users to other organisations that can help them, as they have knowledge of other local organisations and networks that exist in an area.

The role charities play in community cohesion and civic action.
Charities can have a key role in supporting, enabling and empowering all communities to improve lives and the places that they live and work and we believe that we have adopted a fresh and innovative approach to make this a reality.

For example, over the past year or so we have been developing Community Action Networks (CANs) in the borough as part of our Southwark CAN project. We have divided the borough into seven areas with each network allocated a dedicated member of staff.

The ultimate aim of CANs is to equip individuals with the tools and resources that they need so that they can get more involved in the areas where they live and work. Community Action Networks:

- Help connect people to what is going on in their local area
- Provide people with information and support to help them be more involved in their local communities
- Support people to develop specific ideas and projects for their local community
- Help people have more confidence and opportunities to influence decision makers

As part of this process we have launched a new website southwarkcan.org. Whether it is starting a campaign, setting up a community group, or simply wanting to have a better understanding of what is happening where you live and work we believe that southwarkcan.org is the place to go.

This online platform will help people to:

- find out what is happening in their community,
- share ideas you have about what needs to change in Southwark,
- learn about social action,
- get help and support to make a difference,
- organise and promote their own events

Each network hosts three meetings a year where people can meet to discuss the issues that are important to them, as well as making the connections to take meaningful action. They provide an excellent opportunity for us as an organisation to discover how we can help and support individuals and find out about hyper-local issues.

**The role of Volunteers**

Volunteers are often the lifeblood of charities, helping to manage and deliver a range of support services across diverse communities. However it is essential to recognise that volunteers are not free, and it is not always appropriate to use them in a health setting. Organisations need both resources and support to attract high quality, and manage volunteers effectively. Volunteers should not be seen as a free and easy way to reduce demand on health and social care services.
Community Southwark — Written evidence (CHA0075)

From Governance to Service delivery, the sector is benefitting from volunteers supporting them in roles such as Trustees, Mentors, Fundraisers, Administrators and Support workers. www.do-it.org shows the range of roles the sector is recruiting for at any one time.

Volunteers have become a much needed resources for many Southwark based charities and community groups. Our 2015 research showed that volunteers contributed over 5million hours of their time to good causes over the year. This has an equivalent economic value to the borough of £47,368,269. The scale of this is indicative of how much charities are able to do because of the contribution of volunteers.

For example large organisations like the Tate Modern utilise 800 volunteers in roles such as gallery guides and stewards. Smaller ones like Link Age Southwark who with only 10 paid staff recruit 400 volunteers to deliver their Befriending service. Very small community groups are wholly volunteer led organisations like the Latin American Multicultural Group, who provide advice to newly arrived migrants from Spanish and Portuguese speaking countries. We have an estimated 3000 below-the-radar community groups in the borough who would not exist without volunteers and who contribute to the social action fabric of our communities.

The greater reliance on volunteers has come about because of the continuing funding cuts, competition for funds and the growing need for services and using volunteers is no longer just a benefit, it has become a necessity for many organisations in Southwark.

However for many organisations there are many barriers to using volunteers which include lack of space in premises, not enough resources to recruit volunteers and no funds to pay volunteer expenses.

The change in status of volunteers

Because of the increased need to use volunteers to support organisations, best practise volunteer management is essential in attracting, recruiting and retaining volunteers and has increased the status of the volunteer in the work environment. Volunteers, though not members of staff, are integrated into organisations and making them feel as valued as staff is more necessary. Though they remain unpaid, there is now greater emphasis to provide good induction and training and continuing learning and development.

Where once the main motivation for volunteers was around philanthropy, there are now more pressing motivations around gaining experience to find paid employment, isolation, creating new networks, supporting passions and interests. Through best practice, the sector has responded to these changes in motivations by offering roles that meet the volunteers needs, including transparency about the purpose of volunteer roles and the difference they make, more flexible volunteering roles, gaining transferable skills, providing references and creating social environments for volunteers to engage with.

As with organisations, volunteers also face barriers to volunteering which include pressure to find paid work, lack of incentives, lack of information about how to volunteer and language barriers.

2. What are the main pressures faced by charities currently, and what is the impact?
Cuts in funding, and a shift in the type of funding available, combined with an increased demand on services provided by charities to have placed many charities in difficulties. This is covered in more detail in the response to question 7.

Locating and remaining in premises that are available and affordable to deliver local services is an increasing problem as the Council looks to maximise rental income or sell off land and property for private redevelopment. This is a particular problem in an inner London Borough such as Southwark where land prices are at a premium.

“Social prescribing” is an important way to reduce hospital admissions and reliance on traditional statutory services. The VCS is best placed to deliver non-medical interventions and therefore needs to play a central role in any social prescribing model that is established locally and needs to be engaged in the commissioning process at the earliest stage possible. However, far too often the voluntary sector is brought in after key decisions have been taken.

Many small charities are so engaged in “fire-fighting” that they do not have the time or resource to step back and up skill or look at how they might shape and deliver services in a different more effective way. It often means that they do not have the time or choose not to complete complex tender bids when the chances of success are slim. Other barriers exist. Many smaller charities report that having to compete for contracts with larger organisations, or the private sector, as a major disincentive to bid. Others cite the lack of skills, awareness of the opportunities to bid and the need to find partners or form consortia as barriers.

3. How do charities seek to innovate, particularly in the digital arena?

Community Southwark embraces the digital world and encourages its members to follow that example. Community Southwark has provided members training on making best use of social media which was very well attended. We have made much greater use of social media including Twitter, targeted emails including newsletters and other useful information for members and have a comprehensive website covering news, policy, events and other information about the organisation and staff. Community Southwark also increasingly uses (free where possible) online services such as HR Online, Eventbrite, Doodle Poll, MailChimp and Survey Monkey, all of which help in making the charity more effective and efficient in carrying out its work. Community Southwark also uses Salesforce to track relationships with stakeholders and has recently moved to Microsoft 365 for all of its internal office communications and document storage. We have also launched an online platform for the Southwark CANs covered elsewhere in this response.

However, there is a danger in going down the “digital by default” route where access to information and key documents is available online that a number of organisations and communities get left behind.

4. What skills are required to lead and manage a charity?

A charity leader requires many attributes. It is not enough to have a vision and a strong will or possess charisma. The leader needs to recognise the suite of skills that the organisation requires and ensure that they are in place. These skills may need building on or developing, depending on the stage the charity is at in its lifecycle. These skills include, good governance, financial management, business planning, communications/marketing, strategic thinking,
income generation ideas, monitoring and evaluation, safeguarding policies & procedures, reserves and a reserves policy and quality assurance (risk management). The leader needs to be highly motivated and be able to bring the different teams in the organisation together to work for the common aim. A desire to innovate and look for new solutions is also an asset but which has to be balanced with the need to mitigate unnecessary risks and maintain support to those who depend upon it.

Community Southwark offers a mix of free and paid consultancy to ensure that organisations possess all the skills necessary to survive and flourish.

5. **What role should trustees play in the performance and effectiveness of a charity?**

A series of adverse stories relating to charities has led to a significant fall in public trust. The majority of charities do good work and it is imperative that confidence and trust is restored. Many of the stories that have emerged relate to trustees not knowing their duties, not challenging dominant individuals, not understanding conflicts of interest, and making bad decisions. This has provided a wake-up call for all charities to ensure that they abide by the law, respect donors and deliver the highest quality of support to their beneficiaries. Trustees have a key role to play in ensuring that charities achieve these aims through contributing to strategies and oversight set out in formal monitoring procedures. However, trustees need to ensure that they do not interfere unduly in the day to day running of charities.

Like many charities, Community Southwark is accountable to a board of elected trustees. Each trustee has extensive knowledge of the sector and brings a diverse mix of skills. The board meets quarterly to discuss Community Southwark’s strategic direction, financial matters and any operational issues.

6. **How can charities ensure that they are properly accountable to their beneficiaries, donors, and the general public?**

In addition to our trustees Community Southwark has elected VCS Reps who listen to the views, concerns and ideas and communicate them to local policymakers and officials. We hold a members day and have a programme of visits to members. Our annual report and accounts are available through our website.

7. **What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?**

Cuts in funding and changes to the type of funding on offer means that charities are looking to diversify their income and develop structures and processes that are robust enough to protect them from the uncertainties and take advantage of new opportunities that might arise.

Local authorities and Clinical Commissioning Groups (CCGs) need to recognise the ongoing relevance of grants as a viable funding mechanism for the local VCS. We have seen a continual drift towards contracts instead of grants, and this may not be an appropriate way to fund the delivery of some services. However, it must also be recognised that the outcomes from grants need to be measured rigorously in order to demonstrate that they are value for money.
In order to allow VCS organisations to be sustainable, grants need to be provided on a multi-year basis. There also needs to be better conduct around timescales for grant applications – in our experience, they are often very short and do not allow the sector to put in high quality bids. Grant funding applications can also be disproportionately complicated and time consuming in proportion to the amount of funding that is being offered.

In order for smaller VCS organisations to take advantage of commissioning opportunities, we need to see a more flexible approach to commissioning with an application process that more accurately reflects the size of the contract being tendered for. For example, our evidence suggests that large income thresholds for contracts may unnecessarily exclude smaller providers who are well equipped to deliver the services.

A shift towards an outcomes-based approach to commissioning services necessitates that small VCS organisations build capacity and the skills to demonstrate their impact effectively in order to show they have achieved outcomes. Many small VCS organisations are still struggling with how to defining outcomes and demonstrating that they have been achieved. If statutory organisations want to take advantage of the full ability of the VCS to deliver services, monitoring needs to be less onerous and the sector needs to be freer to innovate around agreed outcomes.

A focus only on outcomes and measurable indicators of success may be problematic for community focused organisations who provide a broad range of functions, which all contribute to something difficult to measure such as ‘community cohesion’.

Many organisations find that their funding is cut at very short notice with dire consequences for staff, volunteers and beneficiaries of the service. Others find that no decision or late decisions are made over future funding which leaves both the organisation and beneficiaries unable to plan or budget and as a result services may be unnecessarily closed or scaled down.

An increasing number of funders are asking for match funding, which makes it harder for small groups to fundraise.

There is also a shift towards commissioning for prevention, which is very welcome. However, there are challenges associated with this, as prevention is very hard to measure and demonstrate. If statutory bodies are going to adopt a more preventative approach when commissioning services, they need to create a shared evaluation framework for prevention and make sure their definition of ‘prevention’, and how it should be measured, is fully understood by the VCS. In addition, if statutory bodies are truly looking to fund prevention, they need to take a much longer-term approach towards awarding grants and contracts – as prevention is not a short-term outcome, and the benefits of preventative work can only really be appreciated over long-term periods.

Finally, local organisations have reported that they feel that the value of local organisations is not fully appreciated by commissioners. Arguably, there is a great deal of value in service delivery carried out by an organisation that is deeply rooted within the area it is working in, and understands the dynamics of the area and the communities that exist there (and has built up trust within these communities). An asset-based approach to commissioning services might be an approach with a great deal of potential for making the most of the local VCS.
Taking an asset-based approach works on the strengths that already exist in a community, instead of seeking to fill the gaps.

8. What is the potential of social investment and social impact bonds?

Social investment (and the use of social impact bonds) is frequently quoted as ways for smaller organisations to finance themselves in an atmosphere of reduced funding and austerity. Whilst social investment has created new financial and income models for the VCS in reality, financial instruments like Social Impact Bonds only work for 'big ticket items', such as offender rehabilitation. At a local level, there are not the opportunities that are attractive to investors as the majority of local services are on a small scale and without joint investment and, critically joint sharing of risk, by local public sector agencies, the local VCS will not be able to utilise social investment to its full potential. A survey carried out by Engage London last year found that only 7% of organisation they asked had used social finance.

More work needs to be done to raise awareness of the potential of social investment, and make it more accessible for smaller, local organisations. Additionally, better management systems are needed in many of the organisations we work with, in order to get them in a position to take advantage of social investment opportunities. Organisations need to be sufficiently robust before they can take on this kind of debt finance.

9. What should the role of Government be with the sector?

The role of the Government should be a supportive one which establishes a stable environment in which good charities can flourish. In order to do this Government needs to understand the role and purpose of charities. Often charities are in a unique position in terms of their knowledge and understanding of local needs and the way in which to develop and deliver successful outcomes.

Community Southwark is fortunate in that it is supported by and has good relations with the local Council. However, financial pressures and restructuring within the Council has led to communication problems around decision-making. Both the council and the local voluntary and community sector recognise that times are difficult and are trying to work together to alleviate pressures in the best way possible. The CCG has begun to take an interest in the local sector due to its preventative capacity. A new tripartite strategy between the Council, CCG and VCS is currently being co-produced between the partners, which will set out the working relationships in the coming years.

5 September 2016
1. I am a New Zealand academic whose research specialty is regulation and accountability of charitable and not-for-profit entities. I congratulate the Committee for its wide-ranging research into the charitable sector in England and Wales, and its forward-looking brief to address issues that may harm the sustainability of charities, large and small. While recognising recent high profile events and the changing environment, my submission focuses on future trends that will further challenge the sector, society and the UK Government. These are demographic shifts (affecting charities’ work and volunteering), technological shifts, charity resourcing and accountability/regulation.

Charities’ work and volunteering (Questions 1 & 2):

2. Demographic shifts are a critical issue for both the charity sector and government. The final report of the UK’s Commission on the Voluntary Sector and Ageing (the UK Commission) (2015) notes that, by 2033, nearly a quarter of the UK population will be aged 65 or older. It is tempting to think that this will engender more (older) volunteers, as they will have ‘time on their hands’. Yet, similar to the conclusions of the European Commission (2012), the UK’s 2015 Commission notes that these older people will be more unequal. Compared to the past, the present and future sees more complex family structures, cultural diversity and, while many older people will be wealthier and healthier than a similar population a generation ago, wealth and health inequalities are increasing (Commission on the Voluntary Sector & Ageing 2015; Saxton et al. 2015).

3. Demographic trends therefore give rise to a growing number of both (i) needy people (which is likely to strain both government and charity resources) and (ii) active supporters. Nevertheless, these latter will not necessarily be freely available to volunteer or resource charities, as they may balance family demands (Saxton et al. 2015). Charities must be supported so that they can encourage volunteering amongst those who are able (see 6.).

4. Changes in the ethnic mix of the UK will likely also change volunteering. Connected charities should seek to encourage an ethnically-diverse volunteer workforce and will need to be supported as to how best to do this (see 6.). In addition, this change requires care when gathering statistics on volunteering that require an ‘English’ understanding (i.e. volunteering is unpaid assistance in formal organisations and it does not create an obligation of return). For example, in New Zealand it is recognised that the term ‘volunteering’ is not directly translatable in Pacific or indigenous Māori culture and charities and government need to recognise this impacts policy-making (Smith & Cordery 2010).

5. Not only is the ‘who’ of volunteering changing, but ‘how’ is as well. There is more ‘micro-volunteering’ (or episodic) as opposed to the long-term commitments of the past; and technologically-driven volunteering spans geographic and physical boundaries (Smith & Cordery 2010; Saxton et al. 2015; Rochester et al. 2012). Corporate volunteering can include people who may not have otherwise
volunteered, but these groups require careful management (de Gilder et al. 2005) (see 6.).

6. Volunteering support in England and Wales: Saxton et al. (2015) note the reduced resourcing of Volunteer Centres by local authorities, as well as reduced central government support for Volunteer initiatives. This is not helpful for charities. In New Zealand, government and philanthropic support for Volunteering New Zealand and its regional offices is essential for the functioning of the charitable sector. In addition to encouraging volunteering, and providing services to ‘match’ volunteers with charities, these New Zealand entities provide resources and train managers of volunteers (see www.volunteeringnz.org.nz/competencies). These managers (paid and unpaid) are essential to ensuring the sustainability of volunteer-run charities (Smith & Cordery 2010). England and Wales must increase support of such initiatives if volunteering is to flourish.

Technological shift affecting charities (Questions 2 & 3)

7. Growing reliance on technology has allowed for service coordination (Alcock et al. 2013), but charities must have a clear strategy if they are to optimise their choice of technology to make them more sustainable (Institute for the Future 2014). Continued support allowing programming companies to donate/make their technology available at a discounted rate and assist charities to access current software and advice, is invaluable.

Charity resourcing (Question 7):

8. Obtaining an appropriate mix and sufficient resourcing continues to challenge charities. Worldwide, greater professionalization in charities that deliver social services may crowd out smaller charities, and also has given rise to the blurring of boundaries between charities and for-profit entities (see, for example the US-based report from Gowdy et al. 2009). In the UK, it has been shown that those charities that depend on commercial funding experience more variable revenue streams than those depending on philanthropy and volunteer effort (McKay et al. 2014). With concern, Murray and Milbourne (2014) note large charities may exhibit ‘predatory behaviours’ to reduce variations in revenue streams, i.e. they expand services into areas already covered by smaller charities. Nevertheless, government can realise efficiencies when contracting with one large, as opposed to many small, charities. Balancing efficiency promises against opportunities for locally-based input into quality services, requires government funders to understand carefully, benefits and costs. It also requires carefully designed fundraising regulation to allow smaller charities to raise more stable funding streams (see 10.).

9. While recent reports focus specifically on government-charity funding (Alcock et al. 2013; National Coalition for Independent Action 2015), the Select Committee is right to also consider charities that depend on philanthropy and membership alone (inter alia, these care for the national culture and heritage and support communities). Traditional means of philanthropy (such as regular volunteering, grants and street

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193 Saxton et al. (2015) note that in 2015, 35% of the UK population uses their phones to access the internet, but that this is forecast to rise to 69% by 2020.
appeals) are being abandoned and, while new forms of giving are emerging overseas, donors and recipients report barriers to finding productive and effective models of giving (Salamon 2014) (see 10.).

10. Given that England and Wales has fundraising regulation, it is imperative that this is flexible enough to encourage responsible fundraising that is also effective in this technologically-connected age. This includes supporting cyber currencies and potentially non-monetary donations. The Committee would be well advised to ensure that fundraising regulation is fit for purpose.

Accountability/ regulation (Question 6):
11. With resourcing comes the need for charity accountability for resources and taxation exemptions. A tremendous amount of literature and discussion has focused on differences and failures in accountability to members, donors, other funders and beneficiaries (Sutton et al. 2010; for example, Cordery & Sim 2018). Charities must walk a fine line between the time they spend reporting to others and the time they spend actually achieving their charitable aims. In England and Wales, regulation mandates minimum accountability levels, and the Trustee Annual Report is an important tool, allowing charities to report on their delivery of public benefit (nevertheless, see 14.).

12. Charity regulation in England and Wales has a long history, and useful requirements and structures have evolved that many other countries look up to and seek to emulate. Regulation appears to recognise the costs and benefits by utilising tiered requirements, and the advent of Charitable Incorporated Organisations in England and Wales is a further advancement which assists charity trustees to reduce the risk of bearing personal liability unnecessarily (Cordery et al. 2016) (nevertheless, see 14.).

13. It is widely recognised that some sort of independent check on financial statements is appreciated by charities’ stakeholders. Certainly in New Zealand and Australia the rising costs and complexities of audit/ review engagements are causing concern and indicate the need for an alternative. The Independent Examiner regime (a UK innovation) recognises the costs and benefits of accountability and assurance. However, Morgan (2011) noted that the role is largely unexamined and it would be useful to analyse this regime is achieving its original aim.

14. Despite the reputation and work of the Charity Commission of England and Wales, reduced funding and austerity measures are concerning (Hogg 2016). It is imperative that the regulator is appropriately funded to meet its remit.

This submission recommends that government (i) increases support to charities and their stakeholders through Volunteering peak bodies, (ii) enhances charities accountability through appropriate funding of the Charity Commission, (iii) ensures fundraising regulation is flexible, (iv) checks that the independent examination regime is meeting its aims and (v) funders recognise an appropriate balance between size efficiencies and locally-delivered quality when contracting out.
CAROLYN CORDERY
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References

14 September 2016
A. The Cranfield Trust - Introduction
i. The Cranfield Trust was founded in 1988 and is an independent charity and the leading provider of free management consultancy to charities in the social welfare field. We have a strong track record of successfully placing highly skilled, commercially experienced volunteers with small to medium sized charities, addressing a wide range of management issues to build skills and promote sustainability.

ii. The Trust provides consultancy projects to charities operating in the social welfare field, specifically those addressing issues of poverty, disability and social exclusion. 80% of the organisations we support have an income under £1 million.

iii. We have over 300 active consultancy projects every year (of which over 200 are new projects started in the year) managed by our staff project managers and delivered by our volunteer consultants. Our projects usually provide between 5 and 10 days of consultancy support, spread over 3-6 months. Our client charities are matched with local business volunteers, and 85% of our volunteers maintain contact with their charity clients on completion of their project work, often becoming trustees of their client organisations. The Trust also offers employment advice and information to 1,000 charities via our online service, HRNet, and runs a series of management ‘masterclasses’ each year. Our operations cover England, Wales and Scotland. We have in depth relationships with significant numbers of charities, across a range of sub-sectors, and management support issues.

iv. Our focus is on supporting charities to develop the management skills they need to deliver their services effectively and to be sustainable.

1. What is the role and purpose of charities in civic society in England and Wales?

i. Changing role: Over the Trust’s 26 years of operation, the role of UK charities has changed from providing additional services, often geared to quality of life, to providing key welfare services as contractors to local and central government. This was described in oral evidence to the Committee as becoming the ‘cake’ rather than the ‘icing’. Many quite small charities have contracts with local authorities to deliver their services and this has demanded a considerable change in the management skills required to run them.

ii. Distinctiveness: Their distinctive role is in uniting people with common interests – whether local, geographical, health or other communities – to provide support. People get involved with charities as staff, volunteers, supporters and service users, but their common aims are focused on social, rather than commercial success.

iii. Benefit of and change of status of volunteering: The Trust’s knowledge of volunteering is geared to skilled volunteering – using commercial sector business
skills in a volunteering context. Over the lifetime of the Trust, we have seen interest in this type of volunteering develop as business people become aware that their business skills can achieve lasting impact for the charities they support, and seek volunteering opportunities which will deliver value in this way, as well as providing interesting professional development opportunities and challenges.

iv. While business skills volunteers can play critical roles, bringing expertise that charities may not afford commercially, or providing new views and perspectives, it is important to understand what is possible to deliver with volunteers, and what charities should pay for. The Trust’s view is that key elements of service or organisation management often require commercial support arrangements – for example, ongoing IT support – rather than charities relying on this input from volunteers. It is also critical for charities to understand where volunteer input cannot replace their own responsibility – for example, in developing strategic and business plans. Volunteers can advise, challenge, guide and support, but charity managers need to take responsibility for vital strategic plans and decisions, which they sometimes seek to outsource.

v. Challenges of fulfilling role in civic society: Charities often receive little reward and recognition, and struggle to win support and recruit staff and volunteers. The focus on direct support in contracts and in some funding means that there is little opportunity to invest in staff development and strategic or management activities which are not direct services, putting strain on charity staff. Commercial competition for contracts has added marketing and new business demands which have associated costs which are difficult to recover. Economic austerity and growth in demand for services puts charities under enormous pressure, especially as organisation culture is generally not to turn away beneficiaries, leading to significant financial and staff pressures.

2. What are the main pressures faced by charities currently, and what impact have these had?

i. Pressures: Others presenting evidence in person have described charities’ widespread experience of increasing demand for support, and the challenges of delivering services on falling income, or at best, at breakeven. Charities have been reluctant – often for good reasons – to make substantial changes to their organisations and have ‘salami sliced’ costs over the past few years to a point where they have finally had to face more substantial and structural change. Others giving evidence have commented on lack of ability to invest in staff training and development, and we know that it is difficult for charities to recruit staff with management skills – overall, their focus is on maintaining service delivery.

ii. Our experience is that charities often lack strong strategic thinking, have not considered the ‘marketplace’ for their services – other related services operating
around them, not just their closest competitors or collaborators, and do not always have strong leadership to help them set a firm, independent agenda. All these problems are very understandable given the limited resources of many voluntary organisations.

iii. **Opportunities:** While pressure on charities is high, and financial resources for the sector are limited, we believe that there are opportunities to use social capital more effectively in some cases – through looking carefully at where volunteers can be used to develop charities, not only in more traditional operational or service deliver roles. We also feel that there are opportunities for charities to think carefully about services and the shape of future services in their field of work, rather than holding on to the shape of individual organisations. This is a challenging question – but in resource-poor times, it is not uncommon to find charities whose services overlap, and working together to map need and services at a higher level than by individual organisation could help to maximise resources and reduce any duplication.

iv. Both these opportunities require charity managers to be open to considerable change, and to be willing to review organisation structures, roles, and services more dramatically than most are doing at present – a demanding request at a time when most organisations are at full stretch in delivering support.

3. **How do charities seek to innovate, particularly in the digital arena?**
   i. The Cranfield Trust has supported some strategically innovative charities who have exploited new technologies such as mobile texting for reporting from war torn countries, re-cycling of IT hardware to the third world, reaching out and also remaining in touch with young beneficiaries or volunteers via innovative social media, as well as using new CRM technologies to improve communications and offer information services.
   
   ii. **Barriers:** The barriers to launching new, useful innovative technologies, apart from finance is in-house knowledge of back office systems; HR, financial planning, distribution, legal and licencing, data protection all of which are necessary to get the ideas off the ground and become sustainable. Skilled volunteers can be invaluable here as is the commercial support and experience of large tech corporations.

4. **What skills are required to lead and manage a charity?**
   i. We have 26 years’ experience of supporting charity leaders and managers and have seen strong trends in demand for support over time. With our current clients we see particular gaps in high level skills and management behaviours, and also key tactical skills gaps. These include:
   
   ii. **Governance/board skills:** Most of our client charities experience problems in recruiting appropriately skilled board members. Some charities are aware of
particular skills gaps in their boards, but have difficulty recruiting, others are not aware of the role of trustees and what an appropriate board could or should look like, so do not seek trustees who bring strong skills. In our experience, many trustees are not aware or fully aware of what the role of trustee means, and are currently undertaking some research under a collaborative programme led by The Cranfield Trust and Cass CCE, with the support of the Charity Commission (mentioned by Paula Sussex in Session 1 on 5 July 2016). Depending on research findings, we hope to commission a public campaign to raise awareness of the role of trustee, in order to ensure that governance initiatives are built on strong foundations of individual understanding of the trustee role (see Q5).

iii. **Horizon scanning/’market’ awareness**: Many charity Chief Executives struggle to find time to review their field of operations as a ‘market’ for services. We often find that charities are unaware of other organisations working in related fields – sometimes, organisations which are providing other support to their own beneficiaries – and tend to only know direct competitors or collaborators. Having a wider field of vision and understanding of how their services fit into an overall local, regional or national picture would help charities focus on the distinctive benefits they can provide, improving the use of resources and supporting fundraising/income generation.

iv. **Planning and forecasting**: Many charities have a high proportion of overall income from one or two contracts, or are dependent on a limited number of funders. This tends to lead to short term planning based on these income sources, rather than setting an independent agenda based on beneficiary needs or factors affecting their beneficiary group. We would like to encourage charities to set their strategic direction independently, and to set a longer term view rather than the one year contract terms or grant periods often used for planning.

v. **Financial forecasting**: This is a particular problem in many of our charities as grant information tends to ask for very limited forecast information, usually in budget format. Using cashflow forecasting or other tools which allow charities to really understand the month to month picture of their finances, and which go beyond a 12 month period would allow boards and managers to make more timely financial decisions. We have a rising number of phone calls from charities who have reached the edge of their financial cliff – they have failed to realise that their cashflow was weak and have not made cost cutting decisions in time to achieve a turnaround. We usually find that funders are understandably reluctant to put in emergency funding in this situation. We would welcome funders taking a lead in asking for better financial information – which would have a fast and positive effect on charity managers learning to prepare and use better forecasts.

vi. **Marketing**: Marketing skills were absent in smaller charities for many years, as fundraising was the vital skill to generate income. With a far more competitive
funding environment and many more communication channels open through social media, small to medium sized charities are racing to catch up with marketing and communications skills in order to compete with larger charities with established marketing activity. It takes a lot of time and energy to remain active and afloat on social media, and to take advantage of profile raising activities as soon as they arise. Particular sub sector issues such as personalisation have also required charities to become consumer marketing oriented, having previously relied on relationships with local government to provide a flow of referrals to new service users. Charities do need to improve marketing skills, but we believe that they also need to understand that these can only be effective when supporting a good strategy – we receive many requests for marketing support from charities whose future direction is unclear.

vii. **How can skills be gained?** Skills such as these and others can be gained through the many free or low cost training opportunities open to charities or through pro bono support such as ours. The important – and difficult – commitment required from charity managers is their time. Our experience is that the time invested in working with Cranfield Trust volunteers is often paid back by improved income, improved efficiency, cost savings or other similar benefits with a financial value – but it does require time from charity leaders, which is in short supply.

viii. **Existing support:** There is a large and growing number of support services available to charities pro bono. [www.goprobono.org.uk](http://www.goprobono.org.uk) lists a considerable number of service providers. We believe that there is good provision of support, but charity leaders need to know more about support opportunities, and critically, to have an appetite to take them up.

ix. Many funders are also providing support through ‘funder plus’ arrangements – either by working with organisations such as The Cranfield Trust, or through offering dedicated funding to buy support. Our experience in working with 300 small to medium size charities a year is that they are currently inexperienced at specifying support needed. Many of the requests for support we receive are modified in discussion with our Project Managers at their initial meeting. Charities tend to request support for tactical areas – such as marketing – but often lack the strategic framework to carry out an effective marketing project.

x. Our pro bono service supports charities to specify their needs well, we hope so that they can benefit from other external support effectively after working with us – but there is a lot of development needed in this area. Some of the recent large funding programmes (for example, the OCS Local Sustainability Fund) have used online diagnostics to help charities identify what sort of support they need, but from the contact we have had from charities who have obtained support under some large programmes (not the LSF) we are not convinced that these are effective.
5. **What role should trustees play in the performance and effectiveness of a charity?**

i. **How can trustees be supported:** Our experience in working closely with over 300 charities a year is that many trustees are not really familiar with the role, its requirements and responsibilities. In collaboration with Cass CCE and supported by The Charity Commission, we are working on a programme of research to understand individual trustee awareness, and the levels of takeup of support for trustees from organisations providing trustee information and training.

ii. We hope to complete the research by end 2016, and depending on its results, to undertake a campaign to raise awareness and understanding of the trustee role in 2017 (more information on the research and planned campaign is available if required). We believe that without individual understanding of the role, it is difficult to achieve the good governance required to manage the performance and effectiveness of charities.

iii. We know that many of our client charities struggle to achieve effective boards, whether through difficulty in recruiting appropriately skilled trustees, or through board members understanding their role, or through organisations not having a clearly expressed plan and means of measuring effectiveness and progress.

iv. Trustees need to be well informed to formulate strategic plans, then the charity has to have clear methods of measuring its success and progress so that the board can be confident of its performance.

v. Our view is that the area of trusteeship, governance, board effectiveness and board reporting is in need of a lot of communication, focus, support and development to provide confidence to individual charity stakeholders and to the public. There is a lot of support available for boards, but again, the appetite for development needs to be stimulated, and a real understanding of ‘what good looks like’ developed in trustees and charity managers, and this will be a major communications exercise.

6. **How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

i. There is a considerable amount of work going on in the impact field, and this is a critical element of accountability, alongside a clear strategy and a measurable business plan. With good reporting measures in place and a practical impact measurement framework, charities should be able to prepare reports that allow them to report to all stakeholders from board to the public.

ii. **Changes to current arrangements:** The Cranfield Trust’s view is that these tools and documents do not need to be complicated, but it is really important for them to be well thought through, realistic, and well communicated. These activities would not affect existing regulatory reporting, as they will be individual to each charity, but
having these in place would help to improve annual reports and other required reports to be produced more easily.

iii. Again, our view is that while there is pressure for charities to improve reporting and accountability, and support available to do so, creating an appetite to strengthen this area and an understanding of how it can help is vital – many charities are not investing in this work.

iv. **Long term viability and sustainability:** In terms of assessing long term viability and sustainability, this also relies on strategic planning that takes account of a wide range of environmental and ‘market’ factors, and which goes beyond a 1-2 year period. Many of the charities we support have plans which end at the financial year end, or end of contract period, and their plans are driven by income arrangements rather than by what’s happening to their beneficiaries or in their overall environment. Without stronger planning and ongoing evaluation of the operating environment it is very difficult for charities to understand their long term future.

7. **What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?**

i. Many of the issues already mentioned pose challenges to financial stability –
   - Short term planning
   - Dependence on a limited number of income sources
   - Limited knowledge of ‘market’ and how a charity’s services fit into a larger picture
   - Lack of investment in staff development
   - Poor financial forecasting

ii. **How can challenges be overcome?** Support is available – through paid and pro bono services – to help charities overcome these challenges. Communication is key to create appetite for change, and to educate charity managers as to what can be achieved with improved management skills.

iii. **Sharing best practice:** There are already many activities around sharing good practice and information, and sector bodies do a good job in providing resources, training, information and networks for these purposes. We believe that there is a great deal of provision available, but creating an appetite for change is a slow and difficult process, and good communications from key influencers like funders and government will be vital in helping people to invest time and effort.

iv. **Learning from mergers:** Our experience of merger is that it is a last choice option for charities – and often considered too late for it to be anything other than a takeover of a weak organisation by a stronger one. To maintain our focus – improved
planning and forecasting would help to make decisions in better time, to avoid this rescue scenario.

v. **Benefits and challenges of contracts:** Commercial contracts provide benefits for charities in terms of strong income streams, and for beneficiaries in having services provided by knowledgeable and highly committed organisations. Challenges include high dependence on one or two contracts leading to limited agendas and short term planning horizons – and often, failure to prepare a ‘Plan B’. We have had a number of contacts from charities which have unexpectedly lost contracts after several years – and which have closed down in consequence.

9. **What should the role of Government be with the sector?**

i. **Role of the Charity Commission:** The Charity Commission has a unique position in terms of communicating with all registered charities in England and Wales. Although it has experienced budget cuts, it has an opportunity to educate and communicate on many of the issues covered by these questions, through its regular bulletins and on contact with new trustees. We understand that the Commission is building its database of individual trustee contact emails, and this will be a very valuable asset in improving management and governance through direct communications with individual trustees. Our interest in working with the Commission is very much around the opportunity to communicate, raise awareness and help charities find sources of support, it has a great opportunity to benefit the sector in this way.

ii. **How should Government focus its resource?** Government also – especially at national level – should lead on communications, awareness and education. The role of the OCS in particular should be around charity excellence – through sharing examples, highlighting opportunities, networking with support providers and communicating resources to charities. Many charities are not strongly aware of central government’s role in supporting the sector except through funding and there is a great opportunity for focused communications to feature smaller organisations – the majority of charities – where they have particular strengths in performance.

iii. Two strands of communication from both government and the Commission are vital: clear messages to charities about what government and the Commission can do to help them, or signpost them to find help, and positive messaging about the role and achievements of the sector to the public. A long, steady education via social media and the press about the role of the modern sector is needed to educate the public and help them to understand the size and scale of the sector’s responsibilities and achievements.

*5 September 2016*
Mr John Dale — Written evidence (CHA0005)

Submission by John Dale LLB(Hons) to the House of Lords Select Committee on Charities

This submission is made by John Dale in a personal capacity. I am 67 years of age and have been involved in charities and voluntary organisations all my life. I am currently chair of a very small educational charitable organisation, Operations Director of a Charity and Chair of a voluntary organisation that works with 670+ managers from the NHS.

There seems to be many charities which are actually doing the same thing. The prime example of this would probably be the Royal British Legion and Help for Heroes. In fact, there are also charities, I understand, for most if not all military units such as the Royal Green Jackets which also seem to do the same things but only for their particular unit. This seems to be a huge waste of public donations as each of these organisation will have staff, Boards of Directors, headquarters buildings etc and thus duplicating facilities and staffing that could be used for the purposes they were set up for. I know many very small charities cannot understand why this situation has been allowed to happen. Lots of big charities means they get the lion’s share of any public donations when little charities struggle to survive. I believe this is wrong from a governance point of view and hampering smaller charities from raising basic funds.

The Governance arrangements for charities have seem to been lacking for some time and they still have not fully addressed the issues of how to fund raise in public places. Having a stand in a shopping centre and shaking tins has been acceptable for many years and I still believe is the right way to fund raise. Actually trying to get shoppers to spend time signing up for £x per month is limiting the wider spread of tin shaking. When somebody puts a £1 into a tin for some charity with no on-going commitment they are happy the following week to support a different cause. When people sign up for a long term commitment this limits the pool for other charities and lots of small charities loose out because they do not have the staff and processes behind them to be able to do such things.

Also on this topic, I have noticed that many of the shopping centre teams often tend to target women and the elderly a lot more than the young and men. I would certainly be concerned about this and especially the way they seem to concentrate on the older population.

There also ought to be a simple registration process for small home built charities. Being registered means the world of grants opens up to you. Without registration many grant organisations will not consider you. With a very small charity getting started and getting your first grant is crucial often to your survival over the first few years. There perhaps ought to be a registration process for those charities and the charities that are not fund raising but also need registration for governance purposes. The £5K limit on registration should be lifted or a separate way of registering should be opened to those charities that do not make that amount. This would relate to thousands of charitable organisations across the country.
3 August 2016
The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

Fundamentally, charities exist to meet a need for which there is no statutory provision.

- How has this changed?

The boundaries of state provision have been contracting for many years, through outsourcing to both private and voluntary sector bodies and through austerity measures. This has increased pressure on many charities at the same time as reducing funds available for those dependent on grants. This has impacted less popular causes that find it hard to attract public support disproportionately.

- What makes them distinct from other organisations doing similar work?

The principles of Trust and voluntary service. Trustees are the unpaid guardians of the vision, mission and objects of the charity and are entrusted by the people who fund the charity to safeguard the best interests of the charity and present and future beneficiaries.

- What role can charities play in community cohesion and civic action?

This depends on the resources available to them and their mission. They can contribute through supporting vulnerable members of the community, representation and campaigning or through supporting other community associations.

- How does the sector benefit from volunteering?

For many charities, volunteers are the life-blood of the organisation. They are a most important link with the community and grassroots of the charity and provide a myriad of skills and experience.

- How has the status of volunteers changed?

Volunteers are better supported as their contribution is more widely recognised and best practice more easily shared.

- What challenges do charities face in trying to fulfil their role in civic society?

For the vast majority of charities, funding is the biggest challenge. Statutory grants for charitable purposes have been almost completely cut or replaced with contractual arrangements that can restrict creativity and innovation by tying service or activity to the specification of the grant maker. Charitable grant-giving has been hit by the economy where returns on endowments have dropped or funds from corporate parent companies have fallen short. Voluntary income has been hit by the recession which has reduced disposable income for most people and in turn increased demand/need for many.

An increasing challenge is maintaining trust and support in a climate of increased media scrutiny and criticism. Whilst there are always examples where this might be deserved,
often such reporting is inaccurate, misleading or politically motivated. With trust being such an important principle in the role of charity, the impact of this is damaging to all and undermines the sector’s ability to contribute to community cohesion and civic action at a time when it is needed more than ever due to the ongoing austerity measures.

For organisations like ours, which rely wholly on the support of local people and businesses, our reputation is our greatest asset and we have lost support from people convinced that we have or will sell their personal details to third parties or in some other way breach their trust. As an organisation that doesn’t use direct mail, ‘chuggers’ or buy or sell data this is hugely frustrating.

- How can these challenges be overcome?

For some charities, the challenges to trust and reputation can be overcome through transparency and openness with their supporters. There should also be a requirement for the media, in particular the press, to give as much weight to retractions and apologies for misleading or inaccurate reporting as to the original stories. This might counterbalance the perception of some members of the public of widespread waste and corruption and loss of trust.

To overcome the problem of increasing demand for services and cuts in funding requires political will and a recognition of the value of community led provision from the top down and a willingness to address the fact that there are unpopular causes that will not attract funds from local people but nonetheless are desperately needed to support community cohesion, for example youth services, work with offenders.

**Pressures and opportunities**

2. What are the main pressures faced by charities currently, and what impact have these had?

As above re reduced funding and increased demand in a climate of criticism and mistrust based on a few examples of poor practice or poor and inaccurate research.

- What opportunities do charities have in the current environment?

There are plenty of opportunities for those in a position to be able to access them. Social media provides a great opportunity to communicate with supporters and the public in general, raise their profiles and build more trust and showcase the impact of their work. This works best for causes that are generally attractive to the public. Local causes have opportunities to build on their local credentials at a time when more and more people support the notion that charity begins at home.

- Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

There is plenty of research that demonstrates that causes that are popular with the public do not always match social need. Charities addressing minority needs or unpopular causes face much greater funding pressures because they will struggle to generate funds from the
Devon Air Ambulance Trust — Written evidence (CHA0083)

public, for example charities working with sex offenders, drug addicts, people with mental health problems.

**Innovation**

3. How do charities seek to innovate, particularly in the digital arena?

Many charities are using digital marketing and social media to raise awareness of their work and impact, gain support and fundraise. The more innovative are those opening up to engage with supporters, encourage them to participate and open up communication to people throughout the organisation including volunteers.

- What more could be done to promote innovation, and by whom?

Umbrella bodies, trustees and senior leaders could do more to encourage innovation by recognising and communicating innovations within the sector. Innovation is not the preserve of the private sector.

- What barriers are there to being innovative?

Contracts which constrain activity to a very narrow service specification and contractual terms that prevent legitimate lobbying and campaigning.

Inadequate skills/experience at senior leadership or board level or risk-averse leadership and governance that encourages people to play safe, not rock the boat. Lack of investment in training and development, particularly for organisations strapped for cash where any investment in skills is seen as a cost too far. Inability to justify spending on professional staff or effective training.

**Governance and leadership**

4. What skills are required to lead and manage a charity?

A vision for the future of the charity, aligned with the charity’s objects and values, and the ability to effectively communicate this, motivate people to share it and facilitate their ability to deliver it.

- How can these skills be gained?

Leadership and management skills can be gained through a mixture of experience, training and coaching but vision and values must be shared. The bottom line is that trustees must ensure their charity has a clear vision and values and that this is fully understood and shared by all, particularly paid staff for charities with employees and particularly senior leadership for larger charities.

- What support exists to develop these skills within the charitable sector?

There is a lot of support for developing these skills within the sector at present, from local voluntary service councils to national bodies like Directory of Social Change, NCVO and ACEVO. There is a great deal of support beyond the sector as well, from local business groups to informal networking between peers, formal education and publications such as the various Civil Society magazines on governance, finance etc. However, many of these
require funds in order to subscribe or access which may exclude the smallest or most cash-strapped causes.

5. What role should trustees play in the performance and effectiveness of a charity?

In the minority of charities that have paid staff, the Trustees’ role is primarily to govern. Their job is to ensure that the charity has appropriate systems, procedures and controls to achieve their objectives in a cost effective and sustainable way, safeguarding the assets and maintaining an awareness and understanding that they do so on trust, for the public benefit.

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

Trustees need training and support plus clear accessible guidance.

- What, if any, changes might this mean for current arrangements?

One thing that might assist would be a more robust charity registration process that really questions why the group of proposed trustees believe their new charity is necessary, the objectives cannot be met in any other way, through supporting any other existing body and how they plan to ensure the charity is effective and robust in its performance. This would test their understanding and commitment at the outset. New trustees could be required to complete an online registration process similar to the online DBS checks.

**Accountability**

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

Set out their stall and then live up to the expectations created. Invest in communications. Explain their strategy. Use the Trustees Annual Report and Accounts to address what might be seen as controversial activities: paying staff; paying for advertising; different types of fundraising.

- What, if any, changes might this mean for current arrangements?

The current arrangements are adequate. Charities are as regulated as any other body, sometimes more so depending on their activities. Our activities mean that we are regulated by the Charity Commission, Companies House, the Civil Aviation Authority and the Gambling Commission as well as the myriad of more general health and safety, employment, trading standards legislation. The notion that charities need more regulation yet somehow should spend the bare minimum on administration, which is an unavoidable cost of compliance, is misplaced.

- How should charities assess their long term viability and/or sustainability?

Trustees and senior leaders need to always have one eye on the future. They should ignore the highly publicised calls for charities to spend a specific percentage of income on charitable purposes each year and plan for the next five years; evaluate the impact of potential shifts in income streams and ask how they would survive and adapt. Reserves are an essential tool for sustainability and should be based on a realistic evaluation of likely
threats to income, risks that might impact demand etc. rather than some broad-brush figure based on a period of operating costs.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

Dependence on vulnerable statutory funding, under-funded service contracts, short term grants and project funding that excludes administration and overheads are the greatest challenges for many charities. For some it has been a reliance on fundraising methods that the public finds intrusive. For others it is the increase in demand coupled with reduction in funding as a result of austerity measures. It is very difficult to be efficient and sustainable and think and plan for long-term sustainability when faced with financial uncertainty and in some cases very short-term decision making by key funders.

- How can these challenges be overcome?

For charities funded primarily through donations and income generation these challenges are minimised but this is not an option for unpopular causes.

- How can best practice and information be shared across the sector?

Within our sector, best practice and information is shared both formally and informally through our national association. As it is a small and highly specialised field this is the best way to achieve national collaboration and cooperation. For other charities there are umbrella bodies at national, regional and local level that do an excellent job supporting member organisations. These bodies have had to adapt to reduced funding alongside many of their members. They need more secure funding in recognition of the ever increasing expectation that the charitable sector will plug the gaps left behind as the state retracts.

- What lessons can be learnt from past mergers or dissolutions of charities?

As in business, mergers of charities are fraught with problems and too often result in a less effective more costly outcome than anticipated. Based solely on observation, the single most important factor in whether a merger can succeed is whether there is a real understanding by the boards of the organisational cultures at work and top level commitment to bringing these together along with a willingness to make difficult decisions and implement these in a fair and transparent way. All too often the outcome is two halves that don’t make a whole.

- How can charities effectively deliver services and be assured that their work achieves successful outcomes?

The same way as any other organisation! Identify objectives, plan activities, monitor outcomes, evaluate performance, revise accordingly.

- What are the benefits and challenges of funding for charities being derived from commercial contracts?
The benefits are dependent on the charity’s ability to negotiate a contract. With a good contract they will have the security of funding provided they meet the requirements for delivery. The challenges are many. Charities with vulnerable service users for example might feel unable to withdraw services if they are unable to secure a fully funded contract and risk jeopardising their other activities. Contracts based on direct payments are particularly challenging as costs will be incurred for staffing and infrastructure that are fixed regardless of the number of individuals taking up the service at any given time, leading to troughs and peaks in cash flow. Some local authorities, themselves under huge pressure to reduce expenditure, understand this and refuse to negotiate over proposed cuts to payments on renewal, gambling that the charity will look to fundraising from other sources in order to maintain the contracted service rather than let individuals down.

**Social investment**

8. What is the potential of social investment and social impact bonds?

Limited potential for the larger part of the sector that is too small to engage with this type of opportunity but more potential for the larger charities with social causes that can engage likely investors or demonstrate a wider social impact that would benefit investors. As for SIBs, these have some potential but appear vulnerable to policy change at government level.

- What are barriers to fulfilling their potential?

Understanding of the risks as well as benefits. Willingness to think big.

**The role of the Government**

9. What should the role of Government be with the sector?

The government needs to recognise that there are certain causes that require statutory finance for the greater good and ensure there are resources in place at whatever level of government is required to meet these needs. Other than this, government’s role needs to be structural and strategic, based on genuine research and regular communication with umbrella bodies.

- What should be the role of local Government?

Local government is the most likely conduit for statutory funding for essential services to meet social need. It must accept that charities must be independent and robust and need to know where they stand with regards to funding, service expectations etc in good time to fulfil their obligations to staff and beneficiaries.

- What should be the role of the Charity Commission?

The charity commission is there to regulate charities and support best practice in order to maintain public trust in charities. To the latter end, it needs to be supportive of the role of charity, challenge inaccurate or misleading reporting and politically motivated attacks on the sector.

- Have these relationships changed? If so, how?
The relationships have changed rapidly in the wake of the austerity measures. The government appears to want to have its cake and eat it. The charity commission is under resourced and its leadership appears politically driven by a board appointed by the government of the day.

- How should Government (national or local) focus its resource to deliver its civil society agenda?

Charities do not exist to deliver the government’s civil society agenda. They exist to deliver public benefits and meet social needs that qualify as charitable. The government should be clear about what its civil society agenda actually is and how charities might contribute to this agenda and how this will be resourced. Charities can then decide if this agenda overlaps with their own objectives and what part they can play, if any, on the terms offered.

- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?

This depends on the location. This could be favourable for community action, cooperation and collaboration particularly in urban areas but more challenging in largely rural areas where travel and infrastructure create significant barriers to engagement.

- What are the opportunities and challenges associated with local devolution?

Greater community engagement and accountability of local decision makers versus lack of community level skills in the most deprived communities or disparate small rural communities.

Lessons from other sectors and countries

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

All sectors can learn from each other and from experience elsewhere. This requires access to knowledge and communications, platforms for information sharing and best practice and well-resourced umbrella groups to facilitate this.

NB. This submission is based on 50 years collective voluntary sector experience of our Senior Leadership Team as both leaders and trustees with a wide range of charities and does not relate specifically to Devon Air Ambulance Trust.

5 September 2016
1. Introduction

1.1. DSC’s interest in the consultation

The Directory of Social Change (DSC) is a charity that helps other charities, through training, research and policy advocacy work. We are entirely independent of government, and self-funded through the sale of books and services. Thus DSC does not itself seek donations from members of the public. We are a well-established trainer in the area of fundraising and we help charities raise funds through our fundraising databases. These are informed by our continuous high-quality research on funders, which puts us in a unique position as experts on the fundraising landscape. We also train charity staff and volunteers and publish books on all areas of charity governance and management. Through our policy and research arm, we work to promote and defend the value of the voluntary sector.

1.2. Response to the committee’s questions

The Lords Select Committee on Charities has posed a series of questions on a wide range of topics. As some of these topics are more in-line with our own areas of expertise, this response paper does not touch on all questions. Additionally we felt that we have evidence worthy of consideration which did not necessarily fit in with the posed questions. Therefore we are offering our evidence organised according to theme as opposed to as responses to individual questions.

2. Evidence under themes

2.1. Pressures and Opportunities

2.1.1. Rising demand vs. declining support

Across the sector demand on the services of charities is rising. The situation of many of our beneficiaries has greatly worsened over the last few years and it is no surprise that a study by LocalGiving found that 75% of charities experienced increased demand for their services last year. Homeless charities are faced with 55% more people sleeping rough than they were five years ago (DCLG), and last year alone saw food banks experience a 163% increase in its provision of three days emergency food compared to the previous year (The Trussell Trust).

This means that increased pressure is being placed on the resources of charities, however charities are not getting the support that they need, especially from government and business. Small charities are the worst affected. In the five years from the recession of 2008 the income of small and medium sized charities (those with an income less than £100,000 a year) dropped by up to 44% (Lloyds Bank Foundation for England and Wales). This is a huge problem as while these are small organisations, they make up the majority of the sector accounting for approximately 85% of all charities in the UK.
2.1.2. Decline of government grant making

The government shift away from grant making to charities in favour of contracts also puts pressure on charities and how they work. As a coordinating member of the Grants for Good campaign we are regularly in conversation with charities that have lost grant funding from venture capital and local government as services are tendered out in contracts which are won by private sector providers. In the last decade the total value of government grants to charities has fallen from £6bn in 2003/04 to just £2.5bn in 2015, while contracts have risen exponentially (NCVO).

This tectonic shift is having a profound impact on how charities work. Contracts greatly restrict charities and their ability to meet the growing needs of their beneficiaries. Grants give organisations freedom to respond to changing priorities, conditions and beneficiary needs. They reduce the risk of tying organisations down into services that aren’t working, and can allow organisations to redeploy resources where they are most needed. Grants are especially good for small organisations, which succeed by drawing on resources in the community to deliver their project. By engaging the understanding and skills of the area’s people, the needs and capacity of the community are more likely to be met and sustained.

2.2. Governance, Leadership

2.2.1. The debate on paying trustees

Charities in the UK rely on an army of volunteer trustees roughly one-million people strong. The voluntary nature of trusteeship is extremely important. These are people who give their time and skills freely because they care and support a particular cause. They have no financial self-interest in the charity and are therefore in a better position to take decisions in the best interest of the charity and its beneficiaries. Voluntary trusteeship is a cornerstone of the charity sector, and is one of the most important features of the sector, giving it its voluntary characteristic. This is what sets the voluntary sector aside from the private sector.

Recent scandals have brought the issue of good governance to the fore and reopened the debate about the benefits of paying trustees. However no link has ever been demonstrated between payments for governors and good governance as a brief look at the private sector would show. Trustees need to have the skills to be good trustees, which means they must be trained, and their skills must be constantly updated.

2.2.2. Developing trustee’s skills

In spite of the huge importance of trustee knowledge and skills, a study by the Association of Chairs recently found that more than half of charity chairs did not receive any developmental support in the last year. Those that did often paid for it themselves. The problem is not that charities intentionally neglect this important investment in skills, but that they do not have the resources to do so. As pointed out above, the overwhelming majority of charities (85%) exist on an annual income of less than £100,000, and their budgets are under increasing pressure. A fund is needed which can support financially the training of trustees at those charities which do not have the resources to do so.
The infrastructure is already in place, with training bodies already set up and currently delivering courses across the country which have proven to be effective. All that needs to happen is for those organisations to be resourced to deliver training to trustees which free to the trustee and the charity.

2.3. Accountability

Charities can ensure they are accountable to their beneficiaries, their donors, and the general public by adhering to existing reporting regulations. Charities are already very accountable to these groups and indeed are continuously ranked highly in terms of public trust compared to other sectors.

The Charity Commission’s online register of charities is a vital resource. It is easy to use, and it is easy to quickly obtain information on a particular charity, financial and otherwise. However there is very little awareness of the register among the public. According to the Charity Commission’s report ‘Public Trust and Confidence in Charities 2016’, 50% of those surveyed had heard of the regulator. Only 7% of people had visited the Charity Commission website. Thus it appears that much of the public’s concern about how donations are being spent could be resolved if they knew where to find the information. The register could be promoted more and the mountain of data it contains could be used more effectively to demonstrate the impact that charities have.

2.4. Resource Management: Trusts and Foundations.

DSC is the leading research body studying trends in the trust and foundations sector. Last year we published ‘Sector Insight: UK Grant-making Trusts and Foundations 2015’. From our research we know that grants from trusts and foundations account for roughly £2.6bn of funds for charities every year and are a lifeline for small charities up and down the country. From our research we know there are significant disparities in how each grant maker operates and how they put their resources to use. For example, the application criteria are much less clear with some grant makers, and many do not welcome informal contact prior to application which results in charities spending time on applications for which they turn out to be ineligible.

A significant problem also uncovered by our research is the North-South divide in grant making whereby the areas of higher income deprivation in the North receive a disproportionately lower share of grant money than the wealthier areas in the South-East.

Better coordination among trusts and foundations is needed to ensure resources are used in the best way possible to help communities most in need. Greater learning between grant makers is needed as well as the sharing of best practise. Government could play a key role in coordinating this, perhaps through the Big Lottery Fund which could use resources to act as a convener. The Grants for Good campaign, led by DSC and others, is working on producing ‘Principles of good grant making’ document which will put forward best practise guidelines grant-makers should consider based on our knowledge of the sector.

2.5. The role of Government
Government’s role with regard to the voluntary sector should be to empower charities to fulfil their objectives by pursuing policies and programmes which enable charities and preserves and respects their independence. This has not been happening in recent years.

2.5.1. The Charity Commission

One of the most important responsibilities of the government is to ensure the charities regulator is properly resourced. However the budget of the Charity Commission, which plays a vital role in supporting charities, has been slashed over the last eight years, being cut roughly in half and now standing at £21m. In last year’s Autumn Statement Earlier this year the Commission’s budget was frozen until 2020 which means a further cut of up to 8.5% in real terms.

In this context the Commission has been forced to roll back the services it provides which strengthens charities and most importantly helps trustees to resolve problems and avoid mistakes, in favour of its compliance and policing role. For example the Commission used to run a telephone helpline from Monday to Saturday during working hours. The helpline has now been cut back to just 9am to 12 noon Monday to Friday and feedback suggests it is difficult to get through to an operator.

As the government is reducing the budget, the Charity Commission has been forced to consider introducing fees to charities for regulation. This would greatly compromise the regulators independence and place an additional burden on charitable resources. It is unclear whether donors would approve of their donations being used in this way. Research by DSC shows a very low level of support for the move among charities (approximately 5% of our sample supported having a regulator partially paid for by charities).

2.5.2. The Big Lottery Fund

The government continues to compromise the ability of the Big Lottery Fund, the sector’s most important grant maker, to independently make funding decisions. In 2007 the government raided £425m from the fund in order to pay for the London Olympics. This money has been denied from the sector during a time of financial hardship and uncertainty, however four years on from the London Olympics those responsible for repayments are refusing to commit to doing so. Furthermore, the recent redrafting of the Fund’s policy directions threatens to closely align the fund with government priorities, completely undermining the principle that the Big Lottery Fund grant-making should be additional to, not a replacement for existing projects and services.

2.5.3. Company giving

The government has actively inhibited company giving, which needs to be boosted. We have witnessed first-hand the negative impact of the Government’s decision in 2013 to remove the obligation for companies to provide information in their reports about their charitable donations and we have gathered evidence showing how these changes have made the charitable activity of leading companies significantly less transparent. Evidence from our most recent research on company giving indicates that 41% of companies in our sample
stopped declaring their total charitable cash donations, despite evidence of significant charitable activity on their part.

About the Directory of Social Change

The Directory of Social Change has a vision of an independent voluntary sector at the heart of social change. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come in contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers and are constantly struggling to maintain and improve the services they provide.

We are not a membership body. Our public commentary and the policy positions we take are based on clear principles, and are informed by the contact we have with these organisations. We also undertake campaigns on issues that affect them or which evolve out of our research.

We view our role as that of a ‘concerned citizen’, acting as a champion on behalf of the voluntary sector in its widest sense. We ask critical questions, challenge the prevailing view, and try to promote debate on issues we consider to be important.

DSC’s Principle of Responsible Regulation

DSC has a long-standing interest in charity law and regulation, especially the Charity Commission with which we work closely according to our principal of responsible regulation.

DSC believes that voluntary activity should be regulated responsibly. Some regulation is necessary to safeguard and maintain the interests of the general public, the beneficiary, and of the organisations and individuals being regulated.

However, it should have a demonstrable benefit and should aim to empower and strengthen voluntary activity rather than control it arbitrarily. We believe that:

a) Regulation should be proportionate – it must strike a balance between perceived risk and intended benefit. It should recognise the diversity of voluntary sector activity and be developed and applied in a proportionate way.

b) Regulation should be appropriate – it must be informed by the characteristics, capacity, and needs of the organisations and individuals that are being regulated. Insofar as is possible it should be focused, rather than acting as a blunt instrument that has unintended effects.

c) Regulation should be enabling – it should seek to empower rather than control voluntary activity. The reasons for the regulation and the regulation itself must be properly understood by those institutions which are applying it. It should be accessible
and intelligible to those being regulated. It should seek as far as possible to encourage self-regulation rather than focus simply on enforcement.

5 September 2016
Do-it.org — Written evidence (CHA0046)

Do-it.org is the online volunteering platform that supports more than 50,000 charities and voluntary groups to recruit volunteers. Do-it has registered more than 200,000 volunteers since it launched 18 months ago.

Questions

1. What are the main pressures faced by charities currently, and what impact have these had?

1.1 Unsurprisingly, access to funding remains a key concern for many small charities and voluntary groups. Linked to this is a lack of skills or knowledge within charities as to how to move their service from being wholly reliant on grants, to having a more diverse and sustainable range of revenue stream. Many small charities have a strong track record in their local areas, yet many are prevented from tendering for contracts as they are too small and often fall beneath the radar of larger prime contract holders. For those that do manage to become sub-contractors, there is often a perceived lack of negotiation skills to ensure they get the best possible return for their service.

1.2 There is also a growing pressure on small charities to become more innovative, so that they can deliver services more effectively, reduce overheads, and attract new sources of funding or investment. Many lack the necessary knowledge, skills or confidence to transform themselves and this places their services at risk. The result is that highly valuable local services and knowledge, often those supporting vulnerable people who may not get statutory support, are lost. While bigger or better organised players may take their place, the loss of community contacts, trust and cohesion is often irreplaceable.

2. How do charities seek to innovate, particularly in the digital arena?

2.1 Local charity infrastructure should be required to embrace digital as part of their funding - this means enabling them to digitise their services and training them to help local charities to do the same. There is a huge gap in local skills and knowledge and this appears to be widening, with many charities still failing to understand why digital is even relevant to their work. Without some compulsion from local funders this is unlikely to change soon. National Government can play a role here, by working with the digital industry to help charities gain access to reliable, good quality services. Too many charities have been ripped off by unscrupulous agencies or freelancers, because they don’t know what to ask - being able to access an agency that has some form of charity approval mark could be a step to providing assurance. The Technology Trust could team up with BIMA (British Interactive Media Association) to make this happen if Government was willing to invest.

2.2 In addition, the Big Lottery Fund and other public funders should be compelled to prioritise digital development and infrastructure. The recent CAST investment is a very welcome step in the right direction but far more needs to be done.
2.3 The barriers to being innovative are around knowledge, confidence, and networks. This is not helped by a lack of innovation by professional membership bodies who need to lead by example and regularly facilitate opportunities for charity leaders learn from those that are innovating.

3. What skills are required to lead and manage a charity?

3.1 In today’s climate, sound strategic planning and business development skills are critical. It is no longer just sufficient to know how to run a service. Linked to this is a willingness to embrace digital and its potential to make services more efficient and enable a charity to reach new markets.

3.2 Not enough charities are exploring how digital can make service delivery more effective. While digital is no substitute for real time contact, it can nevertheless enable charities to reach out to new audiences and offer support in a more cost-effective way where appropriate. The sector as whole is lagging at least five years behind the corporate sector in terms of utilising digital tools. This is a great concern as technology evolves at an ever faster pace.

4. What role should trustees play in the performance and effectiveness of a charity?

4.1 Trustees need to act more like non exec directors on a company board. They need to have a sufficient range of knowledge and skills to govern the business of the charity and ensure that it has the plans and resources in place to remain solvent. A Board that does not know that its charity is running out of money so that it closes with only a few weeks’ notice is not doing its job properly. Trustees need to feel confident to challenge the CEO or lead officer, to ensure that it has the information it needs to be able to make the right decisions. This is a particular issue for small local charities where they struggle to attract a good range of skills, often relying on a small number of fellow charity CEOs who end up on several local boards. To overcome this, charities need to work closely with the corporate sector. Initiatives like the Government’s Skills Exchange should encourage more NEDs and Trustees from both sectors.

5. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

5.1 We need to develop better ways to enable donors and beneficiaries to see how a charity is serving the public. Digital tools can play a key role here, especially for donors, who should be able to see how their donation is actually making a difference.

6. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

6.1 While it’s important that charities have a diverse range of revenue streams, we also need to accept that there are some services that will always require ongoing funding. Market driven services have their place but changing a service provider every two-three years in order to save a few pounds can end up being a false economy and ultimately does
not help the end user in any significant way.

7. **What should the role of Government be with the sector?**

7.1 National Government needs to continue to invest in core infrastructure that can support a wide range of charities. Harnessing good quality digital tools that can make accessing key resources and knowledge quick and easy should be a priority. Government should be willing to see this infrastructure as a long term investment so that the same services do not end up competing with their service users for funds in what is an increasingly competitive funding climate. Local government needs to compel its local charity infrastructure to modernise, again making use of digital where appropriate - there are too many local infrastructure services that are simply not fit for purpose. Local government should also have a more open dialogue with national and other local authorities when it comes to funding core infrastructure – for example does every local area require the same service, are there economies of scale to be had with sharing budgets? National Government can play a role here to facilitate such conversations.

7.2 The Charity Commission needs more capacity to regulate more effectively. Public confidence in charities has never been lower - so the Commission must have the power, and the capacity to exercise that power, to ensure that charities behave appropriately. Government needs to accept that this costs money and must be willing to invest accordingly if it is committed to a thriving and accountable charity sector.

_1 September 2016_
Mr Colin England — Written evidence (CHA0036)

1. I wish to draw the Committees attention to the very many housing associations which are also registered as charities and to suggest to the Committee that housing associations should not be registered charities.

2. Housing associations range from very large organisations owning many thousands of properties to very small associations owning just a handful of properties. They are mostly big business.

3. The very large associations have very large staffs and very big budgets running into many millions.

4. The chief executive may get as much as £300k a year in pay and then get added bonuses and benefits. It is often the case that job opportunities are not advertised and no proper selection process is followed. It is rare indeed for the posts of members of the management committee of a housing association to be advertised in any way.

5. Some housing associations employ only staff from certain ethnic groups and provide accommodation only for certain ethnic groups or other specific groups e.g. Refugees, Irish, Muslim, etc. There are also housing associations for women only – employing only women and offering accommodation only to women.

6. There are small housing associations which do not build properties but purchase them on the open market; they have money available and can out bid any ordinary buyer and thus raise the price of property in their area without increasing the National stock of property in any way.

7. The very large housing associations have large sums of money available with which they can purchase sites for house building right across the country. Some housing associations own or manage many thousands of properties across the boundaries of many councils and have an undue influence on the rental value of properties.

8. The Charity Commission seem uninterested in housing associations and do not appear to exert any control over them. The governing committees are unelected and not responsible to any local organisation and are self perpetuating. Such committees should be required by law to advertise vacancies and to have representatives of the local councils and tenants organisations on them.

Livery Company Charities

1. I wish to draw the attention of the Committee to the situation whereby many (most) of the livery companies of the City of London set up charities for the express purpose of being able to respond to the annual requests of the Lord Mayor to support his nominated charity
for the year. It may be that the Lord Mayor at the time exerted some pressure on the livery companies to act in this way.

2. These special purpose charities were registered as charities and the livery company compelled members to either contribute to the charity a fixed annual sum or pay an equal sum as membership fee to the company. This applies even to those long standing freemen members who had entered their livery company under the arrangement of paying a fixed entrance fee which then gave them life membership of the livery company.

3. It seems to me that such an arrangement is extortionate and iniquitous. It is disgraceful and ought not to be allowed. It should be stopped by law.

4. I ask the Committee to consider this matter and if thought fit to make recommendations regarding the arrangement as set out above. I hope the Committee would recommend that such an arrangement is made unlawful.

31 August 2016
Esmée Fairbairn Foundation is a leading independent funder working across the UK. We support work in the arts, children and young people, environment, food and social change sectors. The Foundation makes around 400 grants per annum totalling £35 million. Additionally, we have a social investment fund (£35 million) which makes investments in our areas of funding which have a social as well as financial return.

Like the Committee, we are keen to ease the pressures on charities, and support sustainability within the sector. We have reviewed the consultation document, and concentrated our response on the questions where we feel our overview of the sector justifies a response.

Question 2: What are the main pressures faced by charities currently, and what impact have these had?

1. The funding environment has changed significantly for charities since 2010. The main changes have been: an overall reduction in the amount of statutory funding available to large sections of the charity sector; the continued shift from grants to contracts for the delivery of specific services; and reductions in sector funding from government departments with non-protected budgets (e.g., environment).

2. Local government funding for charities has reduced significantly – although there is no full data on the extent of the cuts – and of all the changes this has had the most significant effect on those organisations we fund. Cuts to arts and leisure budgets, and closure of libraries, sports and arts facilities, has affected many small organisations delivering creative and entrepreneurial programmes of support for communities through those venues. The vast reduction in youth services has not just affected those services, but voluntary sector organisations using youth clubs as a way to reach and help the most disadvantaged young people. It is now a real challenge when operating across a number of local authority areas to navigate the divergence in practice between local authorities.

3. Funds from national lottery distributors are a significant source of funding to many in the charitable sector (including smaller charities). The Committee may wish to review the arrangements for 'returning' monies that were diverted from the Big Lottery Fund to contribute to the costs of the 2012 London Olympic Games.

4. Funds from independent funders are playing a growing role in charitable funding - independent foundation grants overtook those from central government with provision of £2.5bn to the sector in 2012/13 (NCVO). Our funds are particularly effective at providing funding for unpopular, little known and higher risk charitable work. A supportive environment for independent charitable funders to operate in is one which recognises the diversity of approaches and higher exposure to risk. The government and regulator could support this by issuing guidance that is supportive and by keeping to broad principles rather than overly prescriptive guidance. The changing face of charitable activity should also be recognised - including the rise of newer organisational forms to support charitable work. The Charity Commission
current draft guidance on grant funding non registered charities is a key example of this.

5. It is estimated by NCVO that £220m is received by charities each year from the EU. The Committee may wish to look at what, if anything, should replace this, following the outcome of the referendum.

**Question 3:** How do charities seek to innovate, particularly in the digital arena?

6. We recommend looking at the work of a number of excellent organisations we have supported or worked with in the digital arena:

- 360 Giving – supports funding organisations to publish their grant data in an open, standardised way. Aims to help funders learn, set strategy and make better decisions, and enable organisations in search of funding to find the right funders for them. [http://www.threesixtygiving.org/](http://www.threesixtygiving.org/)

- Datakind UK – working to support charitable organisations to make the most of data to further their mission. They built a dashboard for Citizens Advice which used data science to track and predict changes in the issues affecting people everyday, enabling them to act sooner to prevent problems escalating. [http://www.datakind.org/chapters/datakind-uk](http://www.datakind.org/chapters/datakind-uk)

- Centre for Acceleration of Social Technology - upskilling and upscaling social sector organisations to use technology for social change. [http://www.wearecast.org.uk/](http://www.wearecast.org.uk/)

**Question 4:** What skills are required to lead and manage a charity?

7. The Cranfield Trust, an organisation we grant fund which has an excellent overview of the sector, identifies four core areas: leadership and strategic direction; people management; financial management and sustainability; and performance and impact, to which we would add fundraising. We surveyed everyone we fund in 2015 and the areas where organisations wanted most support were evaluation and impact (210 organisations), business development (187) and fundraising (165).

8. The skill requirements aren’t exclusive to the charitable sector, the key difference is a lack of resource (people, time and cash) which means that organisations can’t always attract and retain excellent staff or buy in additional resources (expert advice, staff development, products, services). There are, of course, regional variations. Charities in London and the South East are better placed to take advantage of pro bono support than those in North Wales or Great Yarmouth.

9. We recommend looking at the work of a number of excellent organisations who provide skills support to charities:

- Reach Volunteering [https://reachskills.org.uk/](https://reachskills.org.uk/)
- Cass Business School [http://www.cass.city.ac.uk/](http://www.cass.city.ac.uk/)
Question 7: What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

- What lessons can be learnt from past mergers or dissolutions of charities?

10. As one of the only funders to support organisations with the early stages of considering a merger, we have learning to share. In the past four years we have made 19 grants to organisations, of which half have merged and half have decided not to merge. The aim of these grants was to help organisations make the right decision - we do not regard a merger that does not go ahead as a failure and merger should not be seen as a 'silver bullet' and there can be legitimate reasons for organisations not to merge. http://esmeefairbairn.org.uk/what-we-fund/mergers/

11. Barriers to merger have included:
   - Lack of clarity on the real financial position of small to medium sized charities – indicative of poor financial management.
   - Liability issues – eg high cost contracts for buildings or equipment which could not be broken.
   - Issues relating to TUPE regulations and defined pensions.
   - Lack of will to merge, and feelings that value sets don’t match well enough.

12. Facilitating factors helping mergers to succeed have been:
   - Healthy finances with clear records and good forward planning.
   - Trustees, CEOs and Senior Management Teams prepared to put in a lot of time into the work.
   - Openness and positive attitudes.
   - Enough time to consider all options.

13. Factors causing the merger to fail after the decision to go ahead include:
   - Pension liabilities.
   - Lease liabilities.
   - Redundancy costs.
   - Lack of full disclosure during merger negotiation.

Question 8: What is the potential of social investment and social impact bonds?
14. There has been a growing emphasis from policy-makers on social investment both through the creation of sources of funding like Big Society Capital, and funds to support to charities to make them 'ready' for social investment. As a major social investor ourselves, we welcome the growing interest in social investment, but not to the detriment of or separately to, grant funding. Social investment is not for everyone. It is a very useful tool in the funding mix alongside grants, trading revenue, contract revenue, asset leverage. It requires a sustainability of business model that excludes many in the charity sector, both due to their size (83% of charities have income less than £100,000 – NCVO), or due to the nature of their work (eg campaigning and advocacy groups). It also implies a different way of working and the development of additional skills and competencies at a time when resources for organisations are extremely stretched. Grants can be applied flexibly by charities to meet social needs and are very useful for capacity building and for transitioning business models to sustainability.

15. The focus of support to date for social investment has been mainly complex and expensive financing structures such as venture style funds and SIBs/outcomes financing to the detriment of other types of simpler social investment products such as retail platforms, retail savings products (ISAs etc) balance sheet lending, charity bonds and basic financing support for co-ops, social enterprises, social businesses and charities. We know from our portfolio that these are areas of great potential and would welcome policy support for them.

16. A Social Impact Bond mechanism can be used to:

- test new intervention models in issue areas where existing service provision has proven to be not effective e.g. Family Action’s new Safehaven project, or where there is no existing service provision;
- develop a new partnership way of working e.g. with the Peterborough SIB which brought together multiple service providers all working towards a common outcome.
- taking on contract risk based on outcomes

It is not applicable to all issue areas but there are specific instances where the rationale for this approach is compelling

It is also a very nascent model and there is insufficient evidence to show whether the costs, complexities and performance management result in better outcomes.

1 September 2016
Summary of Contents

Submissions are made to Questions 2, 5, 7 & 9, specifically with regard to the practical and governance issues facing the voluntary sector in property management.

Introduction

The Ethical Property Foundation is a registered charity (No. 1101812) founded in 2004 with the mission to support voluntary organisations with expert property advice free at the point of access.

To date the Foundation has supported 3500+ organisations through individual advice, training and consultancy plus an extensive online resource library of free guidance covering both legal and property management issues.

The Foundation delivers its work through an expert in-house team and its Register of property professionals - surveyors and solicitors who offer services pro bono or at a discounted rate.

In February 2015 the Foundation began a successful collaboration with the Charity Commission answering referrals for land & property advice which is ongoing. Examples quoted are anonymised real life cases we have encountered within the last 18 months.

The Foundation comprises 3 staff FTE, a board of 6 trustees plus expert volunteers. The organisations is financed through grant funding, sponsorship and donations, plus income from its property consultancy and sales of the fairplace Award, a new ethical workplace management accreditation developed in partnership with the property industry.

According to the NCVO Civil Society Almanac 2016 the UK voluntary sector owns operating premises of around £21.2bn and spends £41.7bn in general expenditure – of which property is usually the 2nd biggest cost.

Question 2. What are the main pressures faced by charities and what impact have these had?

2.1 We know from our practical experience, that a voluntary organisation can only be as effective in delivering its mission as the premises it operates from. Property is therefore every bit as important as the staff or volunteers. Yet charities find it increasingly difficult to obtain core funding to cover property costs which can lead to property neglect and mismanagement.

2.2 We believe funders should be aware that project funding for front line services – given without funding for core costs - can lead to staff and volunteers working in poorly maintained premises, adversely impacting on service delivery and running risks to health
Ethical Property Foundation — Written evidence (CHA0042)

and safety. N.B According to the NCVO 2016 Civil Society Almanac, the sector employs 827,000 people - a significant employer.

2.3 According to our research in co-operation with the Charity Commission property is considered by close to half of respondents to be the largest threat to their long term sustainability. Every 2 years since 2012 the Ethical Property Foundation has published the Charity Property Survey which centres on the sector’s property experiences. Key results for 2014:

- 45% of charities think property is the greatest risk to their long term survival - up 4% on 2012.
- Only one third of charities paid for commercial property advice in the last three years.
- A further 40% rely on informal advice from friends and contacts.
- Over 40% experience difficulty in obtaining core funding to cover premises costs.
- 47% would consider sharing space to reduce costs.

Our third survey is due to be published in November 2016 and early indications show that these trends will be reinforced.

2.4 A second pressure is the increasing incidence of local authorities to charge market rents to charities with little warning. This is leading to charities forced out of long established premises.

E.g. One community group faced such a swingeing rent rise from the local authority, they were forced to move far away from the local ethnic community they were set up to serve, requiring changes to their articles of association. This was a significant loss to local people.

2.5 The Foundation believes that effective property management is part of good overall financial management with risk assessments and careful planning prerequisites, not optional extras. Unfortunately charities with a turnover of less that £500K are unlikely to have dedicated property staff, nor trustees with property experience. The situation is exacerbated due to the sector’s culture: people work in the voluntary sector to serve their cause, not to manage bricks & mortar and lease provisions.

2.6 Funding shortages are however offering opportunities for innovative thinking. New technology plus trends of home working and hot desking are allowing some charities to consider whether or not they need an office, while others are looking to move out of expensive areas. There appears to be growing interest in using pop-up premises - as the growth of online shopping leads to high street retail voids - and also towards co-location, where charities jointly buy or take on a lease for shared premises.

2.7 There are also a growing number of councils looking to transfer land and or property into community ownership. This can provide real opportunities for local communities to
revive local amenities or landmark buildings. However it is important that local groups are fully supported in this journey and expert risk assessments are undertaken. We do have concerns that local groups do not have sufficient understanding of the risks involved and the skills required. We have encountered local authority property departments using the opportunity of asset transfer to transfer liabilities. Charities do not always have the skills to be aware of the consequences.

E.g. an unincorporated local group was unaware of the serious risks they would run if they took up the council’s offer of a large period house for £5. It was semi derelict and suffering from subsidence near a river. Fortunately they came to the Foundation before they signed on the dotted line. Sadly many do not.

**Question 5. What role should trustees play in the performance and effectiveness of a charity?**

5.1 The Foundation strongly believes that it should become a matter of best practice that every voluntary organisation however small should have a trustee with specific property responsibility, just as there are often trustees with responsibility for finance or legal matters. At the moment often CEOs or volunteers have to take on this responsibility on top of their core work.

It may be the property industry bodies could assist with identifying those individuals with the requisite skills who are able and willing to serve as trustees. Being a trustee is becoming a more onerous obligation, especially for volunteers and the role of property trustee should have high status on a board of trustees, with sufficient preparation and support. The Foundation regularly encounters the fraught results of property mismanagement by trustees including reduced services, redundancies and legal action.

5.2 We believe that grant funders could play a valuable role in building the property knowledge of the sector and developing best practice.

- On funding applications funders could ask for a named trustee with responsibility for premises management.
- Funders could make clear in their guidance to applicants that they expect to see premises costs on an annual budget and evidence that it has been spent.
- Funders have less money to spend as investment returns decline and therefore concentrate increasingly on project funding (with measurable outcomes) rather than general funding of overhead or operational costs, however arguably they do have an indirect duty of care to staff and volunteers delivering the projects which they fund.

We would therefore recommend that funders pay for premises management training for their grant holders. This would greatly assist the professionalising of the sector as charities become more “business like not like a business.”
5.3 In the last 12 month out of the 213 organisations across England & Wales which received the Foundation’s tailored advice, at least 3 avoided insolvency and closure.

E.g. A social care charity funded by major UK grant making trusts received a bill from the landlord local authority. This was for a six figure sum for dilapidations and the charity was given just days to pay it. The charity had done no repairs for 20 years and had not realised that the original trustees had signed a Full Repairing Lease.

5.4 If charities are forced to close suddenly due to landlord action, funders may find themselves in the position of unpaid creditors. We therefore consider that funders have every incentive to foster a culture of property education to protect their investment and nurture the sector.

**Question 7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?**

Charities overall are increasingly needing to move from grant funding to offering sponsorship and diversifying their commercial activities. The Foundation has undergone such a transformation and it is a significant cultural challenge. Trustees need to be more involved, more like non-executive directors with more physical attendance at the charity.

7.1 After staff, property is the second an organisation’s most important resource and means of mission delivery yet it is usually seen instead as a cost and a liability. We find a common challenge is that maintenance costs as a budget line, are either not spent, or not included at all. Maintenance is seen as a drain on resources not a service delivery mechanism. Yet all our experience shows that penny pinching on premises management invariably causes serious costs down the line.

E.g. Bricks fell off a charity’s building due to gutters not having been cleared for over twenty years. Trustees considered saving on premises costs was thrifty. Legal liabilities caused the closure of the organisation and sale of the building.

7.2 We believe the biggest challenge for the sector is insufficient understanding of risk around property, whether it is owned, rented or in the process of being acquired.

7.3 Understanding risk is perhaps the most important first step in good property management.

**Key areas include governance, reputation, health and safety, compliance, operational, external and financial.**

7.4 In our training, publications and 1:1 advice the Foundation always advises charities to consider:

- What are the biggest risks – how can they be mitigated / reduced?
- What could go wrong?
How likely is it to happen?
What would the impact be?
What are the priorities for contingency planning?

Small steps and quite small sums can make the difference between thriving and failure.

7.5 The Foundation therefore believes property management and property awareness are key to charities delivering successful outcomes to all their stakeholders: staff, beneficiaries, investors, funders, clients as well as their local community.

**Question 9. What should the role of Government be in the sector?**

9.1 Local government & devolved administrations.

9.1.1 The sector has long campaigned for parity of esteem with the private sector in public sector procurement and a greater recognition of the power and the expertise within the sector to deliver services cost effectively.

Over time, the growth of social value commissioning could be one driver to establishing a culture of property management best practice in the sector through the qualifying process. For example commissioners could easily set the Fairplace Award as a pre-qualifying requirement. This robust workplace management accreditation which also evidences social value to people, planet and local community, was developed by the Ethical Property Foundation in collaboration with the property industry and now supports our free property advice service. [www.fairplaceaward.com](http://www.fairplaceaward.com)

9.1.2 Local authorities’ understanding of the role and contribution of the voluntary sector in their area differs widely. Some have little idea about the nature, diversity and contribution of the sector. The worst authorities ‘dump’ buildings which are rarely assets, onto local groups without. The most effective local authorities/devolved authorities work proactively with civil society in a partnership approach. Business rate exemptions are a valuable recognition of the value of civil society though even here we see some reductions ‘nibbling round the edges.’

9.2 Central Government

9.2.1 The Foundation believes that scarce resources should be channelled into preventive property education delivering in-built legacy rather than expensive sticking plaster solutions. Charities can be encouraged to help themselves and take steps to prevent avoidable costs and risk. We know after 12 years’ case load that the knock on effects of property mismanagement are far reaching with adverse effects on staff and client health, local service delivery, job creation, regeneration and local property wealth.

9.2.2 Policymakers should also not underestimate the fear and stress many people in the sector feel when dealing with property professionals such as landlords, surveyors, lawyers or local authority property managers. It can be particularly difficult for those for whom English is not a first language.
9.3. Charity Commission
The Foundation works productively with the Charity Commission in an unpaid capacity. Property is the 2nd largest group of enquiries the Commission receives and their referrals have seen the Foundation’s website visitor numbers grow annually by 300%. Ignorance about property is a key factor in non-compliance with statutory obligations and reduced sustainability. We therefore look forward to working with the Commission in building a culture within the sector for property awareness and property education.

Final Notes to the Select Committee:

The work of the Ethical Property Foundation remains relevant, sought after and cost effective. In 2017 to build outreach across England & Wales, we plan to launch a three year National Programme of Property Education offering web based education and a programme of workshops and drop in advice clinics reaching 700+ organisations centred on major cities and areas of multiple deprivation. Recent workshops run in Sheffield, Newcastle, and Middlesbrough, show each participating organisation supports an average of 2,000 beneficiaries. We therefore confidently aim to benefit indirectly 1.4m people over the course of the whole Programme in addition to supporting our website visitors.

The Foundation has greatly enjoyed preparing this response and wishes the Select Committee every success with their deliberations.

1 September 2016
FaithAction — Written evidence (CHA0015)

Introduction

1. FaithAction, a national network of faith-based and community organisations, has been in operation since 2009. Funded mostly by central government, FaithAction looks to reach and equip faith-based organisations to get involved either in public service delivery or social action. FaithAction runs a number of national programmes, as well as having input into policy with government departments to help raise the voice of faith groups as communities and charities. FaithAction also acts as Secretariat to the All-Party Parliamentary Group on Faith and Society, chaired by the Rt Hon Stephen Timms MP.

2. The thinktank NPC is currently conducting research to understand the size, work and impact of the faith-based charity sector. Initial findings, published in April 2016, found that 27% of charities in England and Wales are faith-based (44,985 from a total of 165,226 charities registered in England and Wales). While this research looks only at registered charities (defined as charities that embody some form of religious belief – or cultural values arising from a religious belief – in their vision or mission, founding history or project content), at FaithAction we are aware of numerous smaller faith-based groups across the country that are not established charities but are nonetheless active in serving their communities. These groups exist in different faiths, and vary in size and reach.

Responses to selected questions

1. 

What is the role and purpose of charities in civic society in England and Wales?

3. In FaithAction’s experience, faith-based organisations (FBOs) tend to have a specific ‘DNA’ – that is, a core that makes them different from voluntary sector groups. They give their members a vision, identity and purpose, and the opportunity to live these out: to practise their fundamental values and beliefs as part of a community.

4. However, the potential of faith groups is not fully recognised at present. FBOs often see at least part of their purpose as being to meet the needs they see going unmet in the communities around them. While in some local areas faith groups are called upon to fill gaps in service provision, in others there can be a reluctance on behalf of more mainstream providers to work with FBOs. There is more that the faith sector can do to help equip communities and meet their needs.

   • How has this changed?

5. Charities (whether faith-based or not) have in recent years been called to do more with fewer resources. For example, FaithAction’s report What a Difference Faith Makes...to Homelessness (2015) identified this as one of the chief concerns of the groups that

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194 www.thinknpc.org/our-work/projects/faith-based-charities
195 www.faithaction.net/portal/our-projects/homelessness
participated in the research: while they were more than willing to continue their work, they feared that their current levels of service were not sustainable because of increasing demand. Cuts to local authority services meant that some FBOs we spoke to, which once provided complementary services, were now the only providers. Economic pressures changes to the benefit system were resulted in higher levels of need: one foodbank reported that 43% of those referred to it were in need because of benefit changes, delays or sanctions. Higher levels of economic need and pressure on individuals were also meaning that more were suffering with their physical and mental health.

6. In our experience, charities have in recent years had to diversify their skills in order to remain active and relevant. At the same time, economic pressures have meant they need to find new ways to source the skills that they need. For example, in the past a medium-sized charity might have been expected to employ a person dedicated to business development and bid-writing. Now, those with these skills are often freelance consultants, as charities do not necessarily have enough funding to keep a full-time member of staff. At the same time, the members of staff they do employ are likely to be required to gain some of these skills even when their main role is in a different area of expertise.

7. There has also been increasing focus for charities on the need to evaluate their impact. This can be a costly exercise, requiring an investment of thought, time and resources – all additional pressures, even if (it is to be hoped) they pay dividends in the long run. Demonstrating impact is one way in which a charity can gain a competitive edge. The competitive nature of the sector has also grown in recent years: whereas in the past charities might have worked together, there is now less incentive for them to do so as the need to gain influence and, ultimately, the funding to keep them sustainable is greater.

- **What makes them distinct from other organisations doing similar work?**

8. Charities, and notably, in our experience, FBOs, hold an ‘over and above’ mentality, trying to address the needs of the whole person and not necessarily confining their work to office hours, or operating within ‘silos’. FBOs tend to focus on seeing those they work with as people rather than problems to solve, and to help in any way they can. For example, a faith-based charity working in the area of homelessness might not see itself primarily as a housing provider, but as an organisation offering practical, pastoral and spiritual support, hope to those in crisis, and respect based on a belief in the dignity of all people. An FBO dealing with somebody who has an alcohol problem is likely also to try to help them with debt relief or relationship issues.

- **What role can charities play in community cohesion and civic action?**

9. Faith groups are often key in identifying issues and responding with localised approaches. They may be seen as institutions with the trust of their local communities, and welcoming to those who turn to them. FaithAction is aware of instances in which people have turned to faith centres (even centres of a different faith from the person’s own) and have sought and received advice and support, or been able to engage in community programmes. Some faith groups have a deliberate focus on working with groups from other faiths as part of
demonstrating their shared responsibility to the community. All of this aids in community cohesion and breaking down barriers between different groups.

- **How does the sector benefit from volunteering?**

10. Volunteers are relied on heavily within charities and especially in FBOs. The Cinnamon Network in its *Cinnamon Faith Action Audit* report (2015) estimates that there are over 1.9 million volunteers in FBOs in the UK (against over 125,000 paid staff). These volunteers contribute over 288 million hours of work annually.

- **How has the status of volunteers changed?**

11. Our impression is that volunteering is becoming more common: more people are doing it and recognising that when they spend time on behalf of their communities, this counts as ‘volunteering’. Some of the increase in volunteering is likely to be due to people’s inability to find paid work, while in others it is simply a result of the desire to meet the needs people see around them. There are still many in faith communities who would not think of themselves as formal volunteers, despite the fact that they donate some of their time to serving the community.

- **What challenges do charities face in trying to fulfil their role in civic society?**

12. Resource is a great challenge for charities – not just in the financial sense, but in the sense that there is a need to bring in the right people with the right skills at the right time. For example, charities may find themselves with responsibilities in relation to their governance that require specific accountancy or legal skills, meaning people with these skills must be found or recruited if they are not already present and available in the organisation.

13. Furthermore, there is a challenge for organisations in having the right connections with other organisations locally. For example, we are aware of FBOs that are ready and willing to take some kind of action in their local community, but are waiting for permission from the local authority (whether or not this is actually needed) before they get underway, and do not have good contacts within the local authority to expedite the process. Local authorities are often seen as ‘owning’ what happens on the ground in communities, when perhaps it should be the communities themselves with the ownership. What is more, organisations that rely on volunteers who have other jobs might do most of their work in the evenings or at weekends – making it particularly difficult for them to build relationships with the local council or to get involved in local decision-making or commissioning of services. A lack of connections can also make it difficult for charities to overcome misperceptions about the voluntary and community sector – such the idea that it is unprofessional or unable to provide quality services.

14. A further challenge is that organisations that rely on volunteers may be seen by others as offering ‘free’ services that do not need funding. In fact, recruiting, training, managing and supporting volunteers takes time and resource. Volunteers do not provide ‘free labour’,

196 [www.cinnamonnetwork.co.uk/cinnamon-faithaction-audits](http://www.cinnamonnetwork.co.uk/cinnamon-faithaction-audits)
but this perception means that they can be taken advantage of – when in fact there are instances when good input deserves recognition and some sort of remuneration.

- How can these challenges be overcome?

15. The Faith Covenant is a means of helping local authorities and FBOs work better together. It was developed by the All-Party Parliamentary Group on Faith and Society, of which FaithAction is the secretariat. The Covenant consists of a set of principles to which both local authorities (or other commissioners) and faith organisations can sign up, which set out a basis for open and transparent joint working. The aim is to make it easier to commission services from FBOs, and so to unlock more of the potential of civil society. More information can be found at www.faithandsociety.org/covenant. The Covenant has so far been adopted by Birmingham, Leeds, Solihull, Northamptonshire, Calderdale and Barnet.

16. On the part of local authorities and other statutory services, increased ‘literacy’ is needed with regard to how to engage with the voluntary sector in general and faith in particular. This can mean things as simple as not using council jargon in communications, as well as broad points such as the fact that it can take months or even years to build a good working relationship. This is not due to ill-will but simply because both sides have many competing priorities, and procedures that can delay progress. Local authorities will need to approach faith groups that they want to engage with, rather than expecting groups to come to them. Finally, with all charities under economic pressure, it cannot simply be assumed that they will always ‘be there’; organisations wishing to engage particularly with smaller charities and FBOs should do so while they can.

2. What are the main pressures faced by charities currently, and what impact have these had?

- What opportunities do charities have in the current environment?

17. From FaithAction’s observations, FBOs have a number of opportunities at the moment. Due to cuts in funding for statutory services, there is more scope than ever before for voluntary sector groups to become involved in shaping and delivering services. Since FBOs often represent and/or serve groups that tend to be marginalised or suffer from inequalities, this is an opportunity for services to be shaped around those most in need.

18. However, there is a gap between groups that are currently ready to engage with commissioning, and those who are keen to but not ready. In many cases the latter include smaller organisations that would need to form consortia in order to be able to deliver public services. They currently lack the connections and relationships with each other, as well as with commissioners, that would make this possible. There is a need for a clear pathway for smaller organisations that want to get involved in commissioning to follow, with clear contacts for them to make along the way.

4. What skills are required to lead and manage a charity?
19. Faith-based charities have a particular need to consider the political climate and issues around integration and extremism. This also means there is an added element of public relations to the work of those who lead these charities. There is a pressure on certain faith-based charities – predominantly Muslim organisations – which can expect that their dealings might come under greater scrutiny than those of other charities, both from government and the security services, and from the press. We have seen from recent incidents and public inquiries, both those related to extremism (such as the ‘Trojan horse’ situation in Birmingham) and those related to child abuse, that mud sticks, regardless of whether or not the allegations are eventually proven founded. How much mud sticks is partly down to how well organisations are able to deal with media interest in them.

20. In FaithAction’s opinion, the skills that leaders and managers need are now at a level beyond what could have been imagined when the concept of charity governance was first developed. The expectations that regulators place on leaders and trustees seem sometimes to be unreasonable, given that such posts may be voluntary and unpaid.

5. What role should trustees play in the performance and effectiveness of a charity?

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
- What, if any, changes might this mean for current arrangements?

21. Some high-quality training is currently available for school governors. In our opinion, this should be adapted for charity trustees, and made available without charge to the trustees.

22. The role of charity trustee is currently little known or appreciated. In our opinion, it should carry as much prestige as that of magistrate. There should be greater public understanding and recognition of volunteering and charity governance, and how they serve society.

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

- What, if any, changes might this mean for current arrangements?

23. In our opinion, the accountability of charities depends on their developing key performance indicators that are both intelligible to and interesting for the public and their stakeholders. To take again the example of schools, the key elements that are of most interest to most stakeholders are examination results, the school’s finances and the condition of its buildings, and it is against these that schools are expected to be accountable. A similar set of priorities should be identified by charities.
7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

24. Lack of income remains a challenge for the FBOs with which we work. They report fewer grants available, increased competition for the funding that is there, and the move towards commissioning rather than grant funding, a system which smaller organisations find difficult to access. As mentioned above, in recent years organisations have also needed to find ways to bring in people with new kinds of business-related skills, which adds to the pressure on resources.

25. Nonetheless, the faith sector does have resources and assets to call upon, such as buildings in the heart of communities, and a willing community of volunteers. While assets such as this means that FBOs may be able to provide services at less cost than other providers, it does not mean that they can offer them for ‘free’. Buildings need to be heated, lit and insured, volunteers need to be supported, and these costs can add up. As indicated above, there seems to be an expectation from some quarters that FBOs are able to provide services for ‘free’ when in fact there is still a measure of funding required for these activities to be sustainable.

How can these challenges be overcome?

26. In our opinion, training is needed to help organisations gain the skills they need to become sustainable, use resources efficiently and manage their risks. This needs to be factored into initiatives when they are planned by funders, including government. Cabinet Office could be a suitable funder of training for FBOs; at least, it should help to raise awareness of the factors that distinguish FBOs from the wider voluntary sector.

27. This point was made by Jeremy Lefroy MP in a Commons Chamber debate on the contribution of faith organisations to the voluntary sector in local communities, on 5 May 2016:197

“My third point is about training and support. We are talking about people giving up an awful lot of their time. In some cases, they are really passionate about something but they need training to enable them to be most effective. Although I am not asking for large sums of money for training or support, perhaps we need to ensure that all proposed programmes contain a training element, because volunteers really appreciate that. Often, such training is done within the programme. Street Pastors has excellent training programmes, as do most other organisations. Such training is necessary; without it, people may soon feel out of their depth and become discouraged, which may make them less able or willing to volunteer. We must recognise that these programmes are not for the short term. People often give up years—sometimes decades—of their life for such programmes, and they need to be supported with refresher courses as well as initial training.”

How can best practice and information be shared across the sector?

28. Infrastructure networks and umbrella organisations are sometimes seen as expensive to run, but in our experience this is not necessarily the case and such networks are the best ways of sharing best practice and information. They include voluntary sector-wide networks such as NAVCA, faith sector networks such as FaithAction, and networks within individual faiths such as Churches Together.

What lessons can be learnt from past mergers or dissolutions of charities?

29. We are concerned that the great work that many smaller charities do often goes unnoticed, unrecorded and unappreciated. Such organisations may do an excellent job but do not necessarily invest in making their work known; their work should still be championed. This contrasts with cases such as that of Kids Company, which had very high profile but was ultimately undone by its failings.

What is the potential of social investment and social impact bonds?

What are barriers to fulfilling their potential?

30. There is a risk that small charities, which are not cash-rich, will not benefit from these initiatives as they do not have the resource to handle this kind of investment structure.

What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

31. In our opinion, the public sector could learn from Germany, where faith-based social action and public service delivery is simply considered a natural part of the mainstream system, and of clear benefit to it. A great amount of social care in Germany is delivered through Diakonie Bundesverband (the Federal Association of Christian Welfare and Social Work), an umbrella organisation for the social and welfare work carried out by Protestant church-based welfare providers, and Caritas, the Catholic social and welfare umbrella organisation. Jewish initiatives are gathered under a similar organisational structure.\(^{198}\)

19 August 2016

Family Action — Written evidence (CHA0135)

Summary

1. Family Action is a charity committed to building stronger families by delivering innovative and effective services and practical, emotional and financial support to many of the UK’s most vulnerable people. Our work includes help for parents-to-be, parenting and relationship support, nurseries and Children’s Centres, home-based family support, emotional health and wellbeing services, mental health services, financial grants programmes and training and consultancy services. Our Chief Executive, David Holmes CBE, would be pleased to offer oral evidence to the Select Committee on Charities’ Inquiry on Charity Sector Sustainability.

2. Charities deliver support across all areas of life. We are fundamentally values, not profit, driven and it is our values base, coupled with our independence from the State, which makes us ideally placed to engage service users and to earn their trust. Charities engage individuals, families and communities in delivering change and enhance community capacity in the process. We give people a voice and make it heard locally and nationally by those in power. Voluntary work is increasingly a pathway into employment or training and there has been increased formalisation of the role and support given. Volunteers allow charities to deliver more and be innovative in service design and delivery.

3. The charity sector’s independence, community networks and fleetness of foot means it is an effective test-bed for innovation and service development. Money is an issue but we are highly skilled at testing new ideas on a shoestring, and able to gather relevant expertise and mobilise new services very quickly. We increasingly use digital technology to provide low level or follow-on support, and digital communication tools allow us to reach wider audiences. Social investment has the potential to enable charities to trial new ways of working that do not yet have a strong evidence base, and Family Action is using social investment to trial a new wraparound service for troubled adolescents in care.

4. Despite calls for more early intervention services, reduced Local Authority budgets mean usually more emphasis is placed on delivering statutory services and increasingly charities are contracted to deliver services previously within the realm of statutory responsibilities. We have adapted to that but it remains difficult for Local Authorities in the current financial context to shift significant amounts of spend to early intervention and prevention. This is reality, but it is vital we do not lose our capacity to innovate and find better ways of spending the same amount of money. Charities can help enormously in that challenge but bureaucracy around commissioning and procurement can stifle innovation and stop positive change.
5. The charity sector must re-establish a clear and positive identity and get better at showing the difference it makes to people’s lives. It is sad that due to some indefensible examples of poor fundraising and financial practice public support of charities has been reduced. Most charities in our experience are well run and quietly delivering fantastic work. We are, and should be, highly accountable bodies, with robust governance and extensive scrutiny by funders. We need to ensure that as well as regulating what charities do and how they are managed we also give equivalent attention to supporting, incentivising and celebrating what they are brilliant at, such as innovation and community development.

6. Charities, more than ever, must operate as efficient social businesses to be sustainable. The reduction and uncertainty of income from local and national Government, short length of contracts and increasing number of service foreclosures are all current challenges. Charities must diversify their income base to survive, and keep an eagle eye on both income and their ability to evidence the impact of money spent. Charities need business-like, values-driven, financially literate, innovative, passionate, impact-focused leaders and Trustee Boards.

The purpose of charities

What is the role and purpose of charities in civic society in England and Wales?

7. Charities deliver support across all areas of life. Charities at their best engage individuals, families and communities in delivering change and significantly enhance community capacity in the process. Charities can give people a voice and make that voice heard locally and nationally by those in power. The charity sector’s independence, community networks and fleetness of foot means it is an effective test-bed for innovation and service development.

How has this changed?

8. Charities are increasingly contracted to undertake quasi-statutory work that Local Authorities would traditionally have delivered - blurring the boundary between the charity sector and the public sector. The boundary between the charity sector and the private sector is also increasingly blurred in terms of how charities must operate in order to stay afloat. Charities, more than ever, must now operate as efficient businesses in order to be sustainable. But what sets charities apart, what must set us apart, is our strong values-base and the fact that we are fundamentally driven by mission not by profit. Due to some highly publicised examples of poor fundraising and financial practice, public support of charities, and their ability to deliver services with true impact, is currently reduced - altering the traditional relationship charities have enjoyed with the public. This is sad because most charities make such a positive contribution to society.

What makes them distinct from other organisations doing similar work?

9. We are fundamentally values, not profit, driven and it is our values base, coupled with our independence from the State, which makes us ideally placed to engage with service users and to earn their trust. We are also highly accountable bodies – with robust governance and extensive monitoring and scrutiny by funders. By the very nature of our funding, whether contract or voluntary income, our practice and finances are constantly ‘open book.’ We think that is only right.
What role can charities play in community cohesion and civic action?
10. Charities help engage communities in delivering change – encouraging co-production and volunteering and enabling people to feel they can make a difference for themselves, their families and their communities. For instance, the Family Action Perinatal Support Services enable local mums to befriend families at risk of, or experiencing mild to moderate mental health issues during pregnancy and/or after a child is born. This not only improves service user engagement and their individual outcomes, but also builds community capacity through the volunteers.

11. Family Action also works with the local community on an organisational basis. We work hard to partner with smaller local organisations – helping to sustain good, local charities and modelling the advantages of cohesive, partnership working. Even where we do not partner with local services we ensure that we signpost service users to other available support. For example, Family Action’s Social Prescribing Service uses a coordinator to work with the service user to identify and address issues affecting their health and well-being, before referring them to a variety of community, voluntary sector and public sector services that can provide appropriate support.

How does the sector benefit from volunteering?
12. Volunteers allow us to deliver more and to think innovatively in service design and delivery. They give charities a larger pool of people with relevant experience and expertise to work with service users, sometimes offering roles that would not be possible for paid staff to deliver. For instance, our Friendship Works Service links adult volunteer mentors with children and young people who need positive adult support/role models in their lives – with mentors committed to meeting with their linked child three times a month for at least two years. Encouraging volunteering in the charity sector enables individuals to test whether they want to move into the sector in an employed capacity, giving them the experience of using and transferring their considerable skills as a volunteer for a period of time. This can enable the sector to benefit from a skilled and experienced new workforce. The beauty of volunteering is that it can adapt to meet volunteers’ available time and other commitments.

13. Volunteers can also give new perspectives on charitable activities to help charities be the best that they can. They bring expertise that some organisations would otherwise find hard to afford, such as marketing or systems knowledge. Trustees are volunteers and a carefully built Board will bring huge amounts of expertise and wisdom for a charity to draw on.

How has the status of volunteers changed?
14. The financial contribution made by volunteers to individual organisations and the sector as a whole has increased - austerity has meant that volunteers are increasingly required by charities to help us provide our services. Not many years ago volunteering tended to be undertaken by those who could afford not to work, whereas now it is often used by those seeking work to gain the experience necessary to secure a job. College and university courses increasingly require either previous voluntary experience, or unpaid placement work to be undertaken within organisations during the student’s studies. These changes to the socio-economic background and motivations of volunteers have coincided with
increased formalisation of the role and the support given to volunteers. For example, at Family Action all our volunteers receive exactly the same basic training as our staff. However, the use of volunteers is still viewed negatively by some funders.

**What challenges do charities face in trying to fulfil their role in civic society?**

15. The charity sector faces the challenges of re-establishing a clear identity and managing public and political expectations. Charities tend to be viewed as a homogeneous group, when it is actually massively disparate in terms of size, income, delivery methods and focus. It is difficult for the huge majority of charities who are quietly doing excellent work to maintain the trust of the public, service users and commissioners alike when a much smaller number of charities receive negative media attention over their questionable practice. The almost inevitable change in regulations and reduction in voluntary donations then risks making it more difficult for charities to maintain their distance and independence from the state - if the result is a greater proportion of a charity’s funding then needing to come from the public sector or Central Government.

16. The increasing expectation that charities will deliver quasi-statutory work also affects the sector’s identity and level of risk exposure. Charities are supporting service users with higher levels of need than previously, with less money to deliver these services. If the sector is not able to challenge this, because the need for the income is so great, it runs the risk unsafe practice will emerge, causing further damage to the sector’s reputation.

**How can these challenges be overcome?**

17. These challenges can be overcome through robust regulation of charity practice alongside Central Government encouraging, enabling and championing innovative service delivery by charities. At the same time we all need to take time to acknowledge and celebrate the massive contribution made to our nation’s health and wellbeing by charities – just imagine what would be lost if charities did not exist, not just in terms of service provision but also in terms of our humanity. Charities can help overcome the challenges by focusing on income diversification and harnessing new technology to deliver services. Individual charities need to clarify and publicise their roles and responsibilities nationally/in the communities they serve – clarity of purpose and definition of role inspires confidence and support. Family Action has invested in new service development, impact measurement, branding and marketing in recognition of these challenges and to work towards overcoming them.

**Pressures and opportunities**

**What are the main pressures faced by charities currently, and what impact have these had?**

18. The charity sector, like the public sector, faces the challenge of maintaining adequate funding to deliver safe services that meet needs. We are continually asked to do more for less. We have had occasion to decline to tender for work that we would normally be delighted to deliver because the budget offered was nowhere near enough to deliver what was asked, and we could not expose the charity to the risk of not being able to make up the shortfall in funding. We are seeing a tendency for Local Authorities to offer much shorter contracts and we are also seeing an increase in tendered services either being withdrawn before award or foreclosed before the end of the contract term. This is very concerning for charities, as bidding for work and the transfer in of services takes significant time and effort, not least because of complex TUPE issues, recruitment and restructuring challenges
and the impact of relationship issues with previous providers.

19. Despite calls for more early intervention services, it remains very difficult for Local Authorities in the current financial context to shift significant amounts of spend to early intervention and prevention. Reduced Local Authority budgets mean there is usually more emphasis placed on delivering statutory services, and increasingly charities are being contracted to deliver services that in the past would have been seen as very much within the realm of statutory responsibilities. There is also an increased demand on the services we deliver to meet higher level needs – due to thresholds being raised for statutory provision. The reduced availability of Local Authority funding also means fundraising – the quest for voluntary income to deliver/supplement services – is ever more competitive.

**What opportunities do charities have in the current environment?**

20. The need to diversify income has encouraged us to look for innovative ways to fund and deliver activities. It has also improved partnership working as siloed working between the public, private and charity sectors is just not viable.

21. In order to maintain services and continue to grow, Family Action has actively sought out opportunities for income diversification and organisational development. We seek out positive mergers with other charities and are investing in the evaluation of our service models and our capacity to increase our digital offer. We have been able to expand our training and consultancy work with Local Authorities, who recognise that we can offer a competitive package both financially and in terms of the knowledge and skills we offer.

**Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?**

22. Over-reliance on any one income stream leaves a charity at risk. Charities have to focus on income diversification and developing a more commercial approach, but this can be contrary to the prevailing culture of an organisation. Family Action has been bold in pursuing a successful income diversification strategy over the last three years. We have been particularly careful to balance our service portfolio, both in terms of size and range, so that we are not too vulnerable in any one area should a funding source be cut or end. We have also been vigilant in trying our level best to hold onto the income that we already have by focusing very hard on the quality of our service delivery, our ability to evidence the impact of our services and developing strong working relationships with our commissioners.

23. Smaller charities are not able to compete with large national charities that have significant funding and numerous staff - yet they face similar challenges. The cost of tendering for new Local Authority contracts is considerable and can be prohibitive – some small/medium charities are simply not able to afford to invest the staff hours, effort to secure ISO accreditations, legal costs or travel costs to attend dozens of ‘market warming’ and ‘competitive dialogue’ meetings prior to the tender release. Children England has previously undertaken some helpful studies to collate and analyse costs to charities – the situation/costs have worsened considerably now.
**Innovation**

**How do charities seek to innovate, particularly in the digital arena?**

24. We are increasingly using digital technology to provide low level or follow-on support, and digital communication tools allow us to reach wider audiences. This is both internal and external – for example, we use digital technology such as WebEx to facilitate practice sharing between staff who are geographically distant from each other. Training can also be provided digitally and we use social media for awareness raising, without the need for specific investment in a traditional campaign.

**What more could be done to promote innovation, and by whom?**

25. There needs to be continued work to link government departments (especially in terms of budgets) and reduce siloed working. Many service users have multiple, interrelated, needs which do not fit neatly under one department’s responsibility, and therefore innovative new services are required with investment across departments in order to meet need and prevent future intervention from being required.

26. Corporate partners could enable charities to learn from commercial experience that can be translated to the charity sector, such as marketing and business management. Practice sharing in general across all sectors and within the charity sector could promote innovation.

27. Please see paragraphs 45 and 46 regarding social investment.

**What barriers are there to being innovative?**

28. Reduced Local Authority budgets are a reality, but it is vital that we do not lose our capacity to innovate and to find better ways of spending the same amounts of money. Charities can help enormously in that challenge but bureaucracy around commissioning and procurement in a competitive marketplace can stifle innovation in practice and stop positive change.

29. It requires time and resource to develop new services or ways of delivering charitable activities. Charities are immensely skilled at testing new ideas quickly and seeing if they work, but often they need just a bit of investment to get an idea going and prove a concept. Too often raising that initial investment is just very, very hard. This is not an argument for more money but rather a redistribution of the money that is available in the system. If charities are good at innovating then let’s help them to innovate.

**Governance and leadership**

**What skills are required to lead and manage a charity?**

30. Trustee Boards must have the ability to be ‘critical friends’, encourage innovation and challenge the status quo. They must have commercial/business experience in order to run the charity in a business like way. Charity leaders need passion, change management skills, the agility and political skill to manage changing landscapes and the interpersonal skills to build relationships, inspire and be people-focused. Business management skills in relation to finance and service development are required, with the ability to develop processes and infrastructures whilst maintaining high quality, safe service delivery.
How can these skills be gained?
31. These skills can be gained through practice sharing across all sectors, especially in the case of commercial organisations, and by ensuring that charity leaders are networked into their own circles of support with colleagues in similar roles. Formal partnerships with commercial or public sector organisations that can support improvements or promote innovation in back office functions would also be beneficial. For example, we are currently working with the Department of Health through their Connecting for Change Programme in order to share their Analysts’ skills in data collection and evaluation.

What support exists to develop these skills within the charitable sector?
32. There is a range of support to develop these skills – informal peer support groups exist, and there is some formal training available, such as Cass Business School’s Charity Management department. Perhaps we should give more attention to the range of skills held by our charity leaders in the same way that we celebrate the skills of leaders of big businesses. It would be interesting for there to be more sharing of the experience of charity CEOs and Trustees in terms of what people have learned over time and how they have developed their skills. Too often people come together to talk about what has gone wrong or what must be done differently rather than to talk about what has succeeded and what others could learn from.

What role should trustees play in the performance and effectiveness of a charity?
33. Trustee Boards need to be diverse in terms of experience and background. Charities need business-like, financially literate, innovative, passionate, values-driven, impact-focused Trustee Boards as they are ultimately accountable for performance and effectiveness of the charity. Trustees need to challenge and probe but also support and encourage.

How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
34. A good programme of induction helps, along with regular training on key responsibilities. We find service visits help Trustees to gain a better understanding of the work of the charity, and it is always helpful for Trustees to be able to talk to a wide range of staff. Board papers need to be of very high quality, be sent out in good time and must contain enough detail to enable Trustees to fully understand the issues so that they can make good, evidenced decisions. We encourage individual Trustees to focus in on particular issues/areas relevant to their professional skills, such as organisational development, finance or HR, so that they can add additional value to the charity through that route too. Board meetings must encourage debate but also encourage corporate decision making too so that everyone is clear when a decision has been made. Peer support from other charity trustees enables shared learning.

Accountability
How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?
35. Charities can ensure accountability through rigour and openness in all that they do. It is important that services are co-produced and person centred. We ensure we have
appropriate accreditations and quality marks, such as ISO 9001, and are investing in a programme of high quality evaluations of our work. It is important that charities complete timely and accurate accounting and reporting and have robust subcontracting and partnership agreements.

**How should charities assess their long term viability and/or sustainability?**

36. Family Action monitors service retention using a ‘red, amber, green’ (RAG) rating for each service based on the likelihood of retaining the contract. We assess the value of upcoming gains and losses to form an accurate and dynamic future financial picture. We also carefully monitor the use of reserves and income versus spending and assess the success of new ventures/investments and ensure they are discontinued if not performing. Family Action conducts robust break-even and return on investment analysis or full cost recovery analysis. On any one day we know exactly where we are in relation to the money coming in and out of the charity and we pride ourselves on that.

**Resource management**

**What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?**

37. The reduction of income from Local Authorities and government grants, short length of contracts and increased foreclosure of services are all challenges. It sometimes feels that commissioners offload risk on to charities – illustrated by the common lack of timely TUPE information during tender processes. There is poor commissioning practice – examples include one location where we expended approximately 300 work hours to resource a bid, won the tender, and then the Local Authority stated it did not actually have enough money to award the contract for the service. Recently a tender we were working on was withdrawn 1.5 hours before the deadline – we, and no doubt other organisations, would already have submitted our confidential bids by that point.

**How can these challenges be overcome?**

38. Diversification of income reduces the risks charities face. One area of funding that needs to be explored further is social investment. Local Authority commissioning practice and expertise also needs to be improved. Charities should invest in business management training for leaders and ensure the Trustee Board has adequate financial and business expertise.

**How can best practice and information be shared across the sector?**

39. Family Action belongs to/chairs a range of alliances and umbrella bodies in order to share best practice and information - including the Maternal Mental Health Alliance, Children England, Alcohol and Family Alliance, etc. Trade press is also important, such as Children and Young People Now.

**What lessons can be learnt from past mergers or dissolutions of charities?**

40. The sector needs to learn that not all mergers are a result of failure, and they should not be a last resort. For example, in 2015 Family Action proactively merged with Friendship Works in order to make both organisations stronger by combining our talents and diversifying our service delivery. Past mergers and dissolutions are also opportunities to learn about how to manage relationships with funders and staff.
41. It can be seen from the dissolution of Kids Company that it is imperative a charity is not too reliant on a single source of income, and is robust in measuring the impact of money spent. Charities and Government should work in a manner that ensures the dissolution of a charity would not mean that service users are left without services and valuable functions are lost.

How can charities effectively deliver services and be assured that their work achieves successful outcomes?

42. A clear Theory of Change, objectives and detail about how these will be monitored should also be set out before the service commences. Monitoring needs to include robust measurement tools and charities should also have a programme of service evaluations. Family Action uses an electronic service management tool, InForm, to collate and store service monitoring data safely and efficiently. This enables us to have all of the information we need at our fingertips.

What are the benefits and challenges of funding for charities being derived from commercial contracts?

43. Commissioners often choose the winners of tenders for the provision of service contracts based on the principle of ‘most economically advantageous tender’ (MEAT) regardless of whether the provider is a charity or not. This makes winning commercial contracts highly competitive and potentially risky for charities, as we must meet the same procurement rules and general legal principles as a commercial organisation. It is also costly to tender, with legal advice often required, so charities must carefully balance offering a low price in order to have the best chance of success, with being economically viable, as there is often no provision for charities to terminate contracts should they run into delivery difficulties. The shorter length of Local Authority contracts and increasing number of service foreclosures makes it more difficult for charities to budget in advance and build up reserves to sustain the organisation should contracts be lost. It also requires more resource from both providers and Local Authorities to reassess contracts and specifications more frequently.

44. The focus on cost and outputs rather than outcomes based Key Performance Indicators (KPIs) can risk the commoditisation of services. There are often delays surrounding agreement with commissioners of what KPIs can be reasonably achieved within the budget and contract time frame.

Social investment

45. Social investors potentially have more appetite to trial new ways of working that do not yet have strong evidence bases. This should help to drive innovation. Family Action has managed to finance a new, previously untested, service called Safe Haven through the use of social investment. This service will give vulnerable young people in care access to a local Safe Haven – a place where a young person can receive help and support, run to in a crisis, eat etc. It gives a young person the opportunity to stay in their current placement but with much greater day to day flexibility and with bespoke and intensive wraparound support, thus avoiding a complete breakdown of the placement.
What are barriers to fulfilling their potential?

46. In our experience securing the financing for our social investment was less of a challenge than finding commissioners who were willing to embrace the concept and pilot an unproven service. Safe Haven has taken fully two years to develop. If the social investment market is to achieve its potential then more thought needs to be given to how the market can stimulate innovation rather than just help to finance it. In the private sector innovation is funded through the concept of equity where an investor takes a stake in a business or a venture that is as yet unproven. In the charity sector we operate “not for profit” so taking an equity stake just is not an option. Instead, perhaps we could have a system where money is put forward by a social investor to pilot an idea and then if the idea works the investor gets an enhanced rate of return on their investment. There would inevitably be winners and losers as some ideas would succeed and others would fail, but overall, and with good judgement, the successes should outnumber the failures. The risk here could be shared if groups of social investors clubbed together to created a pooled fund to pilot the best new ideas. Social Impact Bonds (SIBs) are just a type of financial product but somehow they have become synonymous with social investment and we should challenge that. Many charities don’t need a SIB, they need another type of social investment product - perhaps a loan, but a loan which deals imaginatively with how risk is shared.

The role of the Government
What should the role of Government be with the sector?

47. Government should encourage innovation and best practice, and measure and publicise the benefits the sector provides for the country. We need to ensure that at the same time as regulating what charities do and how they are managed we also give an equivalent amount of attention to supporting, incentivising and celebrating what they are brilliant at as well, such as innovation and community development.

What should be the role of local Government?

48. Local Government should also encourage innovation and best practice, both within service delivery and their own commissioning practice. Local Government should have an excellent understanding of local need in order to commission the best services to meet this and raise awareness of need at local and national level. Local Government should strive to maintain a dynamic and vibrant charity sector locally as we have so much that we can do to support the role of local Government.

What should be the role of the Charity Commission?

49. The Commission should ensure there is strong regulation and that it has the ability to act as necessary in order to uphold the reputation of, and trust in, the charity sector. It should also assist charities to meet requirements through business management support. It should also play its part in celebrating the best of the charity sector and the overall contribution of the sector.

Have these relationships changed? If so, how?

50. The Commission appears to have been given stronger powers, but does it have the resource to use these rigorously?
How should Government (national or local) focus its resource to deliver its civil society agenda?

51. Government should recognise and celebrate the contribution of the vast majority of the charity sector and be imaginative in promoting the development of innovative services. Support for the development of social investment is important but this needs to be done in a way that enables the charity sector to innovate more freely than at present.

What is the likely impact of greater local devolution on the charitable sector, or particular types of charity? What are the opportunities and challenges associated with local devolution?

52. Local devolution is likely to lead to an increased number of different service models tackling the same issues in order to meet the specifications of local Government. This is potentially very exciting if it embraces the full range of talents across the charity sector. One risk is that we have bigger and bigger contracts that only huge charities can go for, or that are only attractive to the private sector.

5 September 2016
Finchingfield Guildhall Charitable Incorporated Organisation — Written evidence (CHA0063)

Question 2 - What are the main pressures faced by charities currently, and what impact have these had?

In brief, these are lack of supportive income and costs of compliance.

Introduction.

All charities need sufficient income to function properly. Good compliance and governance, insurance, licences and the costs of running a heritage building make enormous demands on small, volunteer charities. It is a struggle to cover these core costs and little, if any, resources remain for increasing the delivery of charitable objects, adding to a sinking fund and exploring innovative ways of operating.

Our proposed solution to this problem would be to assign money from the National Lottery to a new, independent fund. Each time a Heritage Lottery grant for a major building project is made, an “endowment” from this new fund would be awarded. It would be released on the completion of building works, endure for a substantial period and would be for a modest sum each year, such as 1% of the HLF grant. With proper consideration given to its establishment, complexity, mission-creep and external interference over time could all be avoided.

To explain our viewpoint we outline below some of the pressures our charity has faced, the impact these had and continue to have.

1. Difficulty encountered during transition to a Charitable Incorporated Organisation.

1.1 Preamble – our charitable roots go back to 1470 when our Guildhall was built by local members of a religious guild. After the Abolition of the Guilds under Edward VI, the building became privately owned. It was then bought by members of the village for the village in 1630. Land was endowed to provide an income to be used for education in the building.

For almost 550 years the building and charitable organisation have evolved to meet changing circumstances and needs.

It would be true to describe the charity as small, never having had a substantial income and broadly local in focus.

In 2004 we discovered that the Guildhall was in a parlous condition, with parts of it declared dangerous as the century progressed.

The trustees took actions to repair, restore and refurbish the Guildhall, embarking on a large project, generously grant-aided by the Heritage Lottery Fund (£1.3834M),
English Heritage (£189,000) and a number of other, well-known benefactors and local supporters. Building works began at the end of 2011 and the building re-opened in late 2013, having received awards for architecture and conservation.

1.2 Our charitable objects as a trust could not be met in conjunction with using the building to generate income. It was necessary to change our charitable status.  
1.2.1 Previously, charities would operate a charitable trading company, some limited by guarantee to deal with this problem. Such organisations would report both to the Charity Commission and Companies House. Government proposals to establish a new status, a Charitable Incorporated Organisation, (CIO) fitted our needs exactly, reducing the administration and reporting requirements to the Charity Commission only.
1.2.2 We chose to become an association CIO, in an attempt to future proof the organisation. As soon as it became possible to apply for this, we began working with the Charity Commission, using model documentation from the Commission as a way of reducing any objections or difficulties. We were granted permission to become a CIO in May 2014.
1.2.3 Charitable assets primarily include the ancient endowment of land and the Grade I listed heritage building. The transfer of these from the Trust to the new CIO finally took place on 30th September 2015. Confirmation that the transfer would not trigger a significant VAT event was required and this delayed the proceedings considerably. Minimal, if any, liaison between various agencies appears to have taken place in consideration as to how CIOs should operate.

1.3 It is concerning to report that the costs of becoming a CIO were substantial; the process was so complicated, with very serious financial consequences if errors were made, that it was essential to pay for professional advice. Our legal bills and accountancy fees amounted to approximately £20,000.- equivalent to one year’s income. We were fortunate to secure grants for some of this but the significant input required from volunteer trustees cannot be over-stated.

1.4 Impacts:
1.4.1 Charities may be deterred from applying for this status because of the complexity and costs;
1.4.2 Resources (financial and time) are deflected from charitable purposes. We have had to delay the implementation of planned programmes.

2. Costs of compliance.
2.1 Each year our Trustees’ Annual Reports have commented on the increasing costs
of good governance and compliance.

2.2 The introduction of the new charitable SORP has resulted in increased costs to the charity. As well as increased fees for our Annual Independent Inspection (an increase of almost 10%, capped by our accountants) the requirement to have assets formally valued has resulted in further expenditure.

2.3 We expect to generate income of around £20,000 this year. We believe our compliance costs will be one quarter of this.

2.4 We support wholeheartedly the right of donors, grant makers and the public to hold charities to account. Employing specialist professionals for an annual audit or inspection is important to us. Financial reporting is one of the criteria used by funders to assess suitability for grants. It is extremely unlikely that a wholly volunteer charity, such as ours, with no “track record” of large-scale projects, would have secured grants without the back-up of respected, recognised professionals.

2.5 Impacts:
2.5.1 we believe that the impact of increasing costs of compliance and good governance is less money spent on charitable objects. The proposed funding stream discussed in our introduction would provide much-needed financial mitigation; 2.5.2 securing grants for “unglamorous” on-going running costs is difficult. Many funders wish to be associated with definite projects. While this is understandable, it does not help hard-pressed charities. Our proposed scheme linked to a Heritage Lottery grant would provide significant help and support not available from a range of other grant-makers.

3. **Funding.**
3.1 We receive money in a variety of ways: use of the building for events, hiring out etc; donations from individuals; grants.

3.2 For us, sustainability means trying to maximise revenue by using our heritage building as much as possible. The limitations of our location, in a small, rural community, dictate that we are unlikely to be able to cover more than our core costs in any year. Any shortfall must be found from other means.
3.3 Our charity benefits currently from generous local benefactors, who donate anonymously and seek no recognition for their kind actions.

3.4 Throughout the last 10 years we have applied for hundreds of grants. The amount of time spent researching these and writing applications is enormous. We have been successful in gaining large and small grants. So it is from a position of some experience that we comment. However, without the Heritage Lottery Fund and English Heritage (as it was) we should not be in operation today.

3.5 Meeting the requirements of a variety of funders poses a challenge to us as a small charity. Resources must be expended in demonstrating the effectiveness of a grant. We have learnt to converse in the language of funders – becoming familiar with “measuring the immeasurable”, using evaluation techniques such as indicators, outputs, generic learning outcomes and other such matters.

3.6. Charitable funding remains available for those charities who are diligent in seeking it and for those prepared to develop “skills” necessary for successful grant applications.

3.7 Impacts:
3.7.1 it is difficult and off-putting for small, volunteer charities to meet funders’ increasing criteria. In our experience, major funders make few, if any, allowances for the nature of the applicant.
To give an example – in 2005 an experienced professional, speaking at a seminar on fund-raising, suggested that the Big Lottery should be used by all small charities, as it offered a straightforward, one page application process, accessible to all, with the outcome determined within six weeks. Currently, over 50% of applications to this source are declined as they do not meet the criteria, including correct completion of the form. If applicants must work through copious guidance notes, attend a webinar and discuss a proposed application by e-mail or phone, might it be argued that the process is not straightforward?;
3.7.2 We argue that there is scope for improving application processes for nationally available, publicly funded awards so that all charities may benefit. Evaluation requirements in particular need improvement.

4. Conclusion
As a small, volunteer charity we face particular problems.
We believe that charities and their trustees face growing pressure to become more
“professional”.
The current direction of travel squeezes volunteer trustees, who have operated, historically, from altruistic motives. There are increased compliance and governance demands and while we are committed to accountability to funders, donors and the public, deterring potential volunteers benefits no-one.
Financial concerns continue to increase. In 1630 a local benefactor showed considerable forethought in endowing us with an income to meet the costs of providing education in the Guildhall. The passage of time has reduced the value of this significantly, but the principle remains good.
Using money from the National Lottery in a similar way, to “endow” small charities with a supportive income for a substantial period, in tandem with the award of a significant Heritage Lottery grant, would alleviate much pressure.

4 September 2016
Introduction

The Foundation for Social Improvement (FSI) is a membership organization (charity) that exists to give small charities the strategic support they need to keep their doors open and be there for millions of individuals, families, communities, and other causes that desperately need their help. As of September 2016, we have a membership of over 4,700 organizations. The organizations that we work with are small charities with an annual turnover of less than £1.5 million. By this definition, small charities comprise over 97% of the 162,965 charities in the UK.¹⁹⁹

The evidence that we have gathered here draws together existing reports (Small Charity Index: cumulative data covering the areas of governance, income, service delivery, and workforce issues, collected over a 36-month period), as well as respondents to a survey submitted to our membership. The survey to our membership sought the position of small charities in relation to the questions in the Select Committee on Charities’ Call for Evidence. This consultation response is informed by the FSI’s specialist knowledge of the small charity sector through over 2,500 face to face interactions with our members each year.

Question: The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?
Response: The majority of respondents agreed with the overarching principle that the purpose of charities in civic society was to provide public benefit to their communities through:
   - the enrichment of civic and cultural life, supporting the local community
   - addressing inequality, marginalisation, discrimination and exclusion
   - achievement of social cohesion
   - alleviating need, improving the circumstances of the individual, family and wider community including the environment
   - campaigning for change

The role of charities has changed in that charities are increasingly bolstering state provision, and to some extent replacing state provision which is currently being eroded. Today charities are increasingly providing a safety net for those who are unable to access statutory services.

The most fundamental difference that makes a charity distinct from businesses/companies undertaking similar work is the reason why they exist. For-profit businesses/companies are generally founded to generate income for shareholders and their employees, whilst charities are generally founded to serve a humanitarian or environmental need. However, with the increase in both social enterprises and mission-based businesses the distinctions are often more difficult to recognize.

Community cohesion lies at the heart of what makes a safe and strong community. It is delivered locally through small local charities that are trusted and respected by the local community. Small local charities understand local diversity and are able to nurture and support a sense of belonging and trust as they have often been founded by the community or based within the community and therefore are trusted and have the confidence of local people. Small local charities are able to effectively tackle cracks in society which may lead to local conflict and ensure that the changes and actions taken by the community bring a source of strength and are embedded within the community at grassroots level.

The impact of volunteering is most keenly felt in small charities and is crucial to the sector. It is therefore welcoming to see a steady increase in volunteer numbers, up by 25% since June 2013, rising by an average of 2% quarter on quarter. Small charities, who are experiencing an unprecedented increase in the demand for services (64% increase between June 2013 and May 2016) are increasingly reliant on volunteers to support the delivery of their services and, with income static over the same period, volunteers are helping small charities to reduce their operating costs. But it is not just the time volunteer are able to donate that is important, they are also increasingly providing specialist skills that very often smaller charities do not have within the workforce. Volunteers are helping to ensure charities are compliant with current legislation, support in the development of policies, give advice on issues such as pensions, property management, as well as social media and a whole host of other specialist skill sets. The status of volunteers has therefore changed from those coming in to ‘give a hand’ or raise funds, both of which are still crucial to the needs of small charities but increasingly they are seen as a vital part of a small charities ability to operate. This change in role has increased the status of volunteers within a charity.

Question: The purpose of charities

2. What are the pressures faced by charities currently, and what impact have these had?
Response: Currently, due to cuts in funding to Local Authorities, local services are being cut to local people, therefore more and more local people are turning to local charities to augment state provision.

Income Generation:

Against a backdrop of increased press and public scrutiny into fundraising practice, small charities are more vulnerable to shortfalls in income from voluntary sources. Since June 2013, the Small Charity Index evidences only a minor total increase of 3% in voluntary income, which is reflective of the sector as a whole, as the NCVO 2016 Almanac reports the overall trend for voluntary income has remained relatively stable.

It is clear that changes and cuts to government funding pose a serious risk to many small charities. Statutory income to the voluntary sector as a whole has fallen, with smaller charities hit particularly hard. The public service delivery environment has also changed.

200 Small Charity Index: Edition 12, March to May 2016
significantly, with a shift towards one that favours competitive commissioning models in which all types of providers compete to deliver public services and, furthermore, this is to the detriment of small charities as larger charities tend to dominate the market. The majority of Small Charity Index respondents (80%) reported their statutory income levels have dropped by 7% since June 2013.

There is no doubt that small charities play an important role in providing support or advice, and the trend in respect of our members is of a continuous rise in demand for services, with results from the Small Charity Index dating to June 2013 demonstrating the total increase in demand to be a significant 64%.

Workload is a further significant challenge for small charities as they struggle to balance the demand for services against a limited ability to increase staff resources. Also cited was decreasing resources to spend on upskilling staff and managing volunteers.

The following are some of the issues brought forward by respondents:

- **Funding:** There was a general feeling that small charities were being expected to take on more and more work for less funding due to the misconception that charities are able to augment their income from voluntary sources when in reality this is not always possible. Cuts in funding from Local Authorities has the knock on effect of increasing pressure to apply for more grant funding from trusts and foundations, however this requires more staff resource to put bids forward and to report on outcomes. A further point brought forward was the perception that the corporate sector can provide a significant source of funding, in the experience of smaller charities this is not the case as they do not have the ability to deliver the marketing opportunities often sought by businesses. Also cited as an issue for smaller organisations was the lack of funding to ‘invest’ in fundraising and that they were increasingly competing for funds from larger charities who had significant resources to invest in marketing, media, advertising etc.

- **Staff Resources:** small charities are relying heavily on volunteers to provide ‘back office’ support in specialist skills areas (human resources, legal, marketing etc.)

- **Governance:** a lack of funding means that small charities don’t have the resources needed to spend on governance and staff development. Small charities often struggle to attract trustees and the fallout post Kid’s Company has not made this situation any easier.

- **Public Trust:** small charities feel that they are under greater scrutiny by the general public due to the poor practices following in respect of fundraising by some of the larger charities operating in the UK.

**Question: Innovation**

3. How do charities seek to innovate, particularly in the digital arena?

Response: Our respondents report they are aware of the digital arena and understand innovation is critical in responding to change and delivering their objectives, with the majority citing the use of social media to increase their profile. However, they experience difficulty in finding the talent, skill and knowledge required to do this at the lowest possible costs. Respondents report that the majority of their staff are self-taught
and a number rely on occasional pro-bono support to boost their social media presence. Small charities also cite limited staff capacity, resources and funding are barriers they face to being innovative.

Small charities often face a difficult trade-off, the want to innovate but if innovation requires investment they are often not able to move forward as they have minimal resources for development instead the majority of their income is needed to cover service delivery. This suggests small charities are still far behind in the digital arena in comparison to larger charities, who are more likely to be able to afford to direct resources to this area. Nevertheless, respondents suggest that small charities themselves also need to work on breaking down internal siloes and embrace taking risks.

To promote innovation, small charities need to be supported in increasing their digital engagement through improving access and awareness of skills. Respondents believe the government should have a role in this. For instance, by bringing together voluntary organisations with private sector organisations to share learning and also to encourage companies to provide pro-bono support to the smaller charities.

Question: Governance and leadership

4. What skills are required to lead and manage a charity?

Response: To effectively lead and manage a charity, our small charity respondents suggested leaders need to demonstrate a range of skills. These skills can be dependent on the size and type of organisation, and the sort of work the charity undertakes. Yet respondents cited skills across a number of themes, with key ones including vision, strategy, management, and finance. Charity leaders should also be able to demonstrate a strong knowledge of the sector, an understanding of marketing, be creative, flexible and have people skills to effectively manage their organisation.

Respondents suggested that having experience in the sector gives leaders the ability to appreciate how service delivery is managed. These skills can be gained through learning from others and relevant experience in the voluntary sector. Professional development in the role is also vital, with respondents highlighted the importance of training to support charity leaders in their role.

5. What role should trustees play in the performance and effectiveness of a charity?

Response: Trustees are ultimately accountable for a charity’s performance, direction, strategy, and adherence to statutory requirements. As a voluntary position, people undertake trusteeship because they care and are passionate about a cause or issue.

Trustees play an essential role in bringing in a breadth of perspective and additional skills to the board. Small charities believe their trustees should be proactive and supportive in their role, with a full knowledge of their responsibilities in order to deliver good governance and achieve financial stability for the organisation. Beyond this, trustees should network to promote the organisation and be willing to open doors for the charity.
To be able to fulfil their responsibilities, trustees should be effectively equipped, enabled and supported. Small charity respondents believe this should be a requirement rather than good practice, and suggested the government could fund training and give recognition to the role.

Question: Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors and the general public?
Response: Small charity respondents suggested this can be achieved thorough regular reporting of service delivery using feedback from beneficiaries. Charity leaders should understand the importance of accountability and instil a culture of openness and transparency, while the trustee board should oversee it all to ensure the organisation, its activities and finances are well managed.

Small charity respondents stress the importance of monitoring their financial stability and cash flow, as well as the services provided against demand and need. By ensuring the sector remains relevant to those they are seeking to support and aligning their work with new developments in the field. Respondents suggest having a realistic business plan in place will allow charities to direct their ambitions for growth and long-term sustainability.

Question: Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?
The FSI’s research highlights that one of the key ways small charities can build sustainability is through greater collaborative working with other charities. 70% of respondents to the Small Charity Index state they are working in partnership, of which 59% are undertaking less than in 10% of their activities in partnership, which suggests they are not collaborating at a significant level. Through collaboration, small charities can deliver more services while spending less time delivering them. Our research found that 89% of those in a strategic partnership spend less or an equal amount of time to deliver the same proportion of services. By sharing resources and combining efforts when, for example, applying for funding, small charities are able to pool together best practice and coordinate shared learning.

Question: Social investment

8. What is the potential of social investment and social impact bonds (SIBs)?
Response: a recent Perception Survey of our members revealed there is little awareness or uptake of SIBs amongst small charities; just over half of the respondents (52%) stated they have little or no knowledge of SIBs, while 0% were able to say they are fully informed. Moreover only one out of 316 respondents currently, or has in the past received, funding via a SIB.
This indicates SIBs, if more widely marketed, have potential in the sector, however in order to fulfil this potential, respondents highlighted the need for more clarity relating to the impact, including how small charities are assured that they would not be left to bare the financial costs of a project that is not as successful as it had originally been envisioned. Small charities were additionally concerned about the operational implications, such as how could they finance the work themselves (upfront) if payment is only upon results, and how success would be measured.

Question: The role of the Government

9. What should the role of government be with the sector?
Response: small charities believe the role of the government should primarily focus on providing funding, access to training/development of skills and advisory support. Small charity respondents additionally believe the government should oversee regulation of the sector, promote and encourage volunteering.

More notably, the government should resource the sector more equitably by supporting smaller charities in particular. The relationship between the state and charities has fundamentally shifted as government funding of the sector has moved, initially through grant funding, to contracting charities to provide public services on behalf of the state. Therefore the government should ensure a more equitable approach to grants and contracting by, for instance, reviewing the tendering process, allowing small, medium and large charities equal access to funding based on their available resources.

With the Charity Commission, small charity respondents believe it should have a regulatory role to ensure charities continue to act legally and efficiently to the benefit of civil society. This will ensure that charities remain transparent in how they operate, details of their financial activities and are accountable to their donors. Small charities believe the Commission could be more supportive and provide guidance to help charities thrive and increase the public’s trust and confidence in them. Another way this could be achieved is by ensuring the voices and concerns of the charity sector are voiced to government.

2 September 2016
The Foyer Federation was set up in the early 1990s to develop an alternative to hostel provision, working with young people who were both unemployed and in housing need. This alternative model sought to go beyond what was then available, providing a holistic range of services to enable young people to turn their lives around. Today, our network of over 110 local Foyers continues to reconnect thousands of young people a year with learning and work against a background of growing youth homelessness and a tough funding climate, particularly affecting those young people facing multiple challenges.

Perhaps state explicitly that we are a membership organisation/thought leader?

1) What is the role and purpose of charities in civic society in England and Wales?

One of the overriding challenges facing the charity sector is the blurring of boundaries between the state, private companies and charities. While effective outcomes may often require a collaborative effort between the sectors, their conflation erodes the unique positions they hold and diminishes clarity of individual purpose. Governments, for example, have increasingly come to see the charity sector as a vehicle for delivery of public policy, an approach which serves to compromise the sector’s effectiveness. This challenge may be overcome simply through the setting of clearer boundaries which explicitly state the jurisdiction of each player. The Government, for example, should be looking to support without interfering.

2) What are the main pressures faced by charities currently, and what impact have these had?

The media storm surrounding the demise of “Kids Company” and dubious fundraising methods used by other charities has contributed to a reduction of public trust in the sector. This, in turn, has made it harder for charities to raise funds. However, the sector is working hard to regain trust, reaffirming transparency and working with industry regulators to ensure full compliance with ethical and legal practices.

Another significant pressure is resultant of the government’s austerity narrative and the reduction of public services in small towns and rural areas, where a number of our members are based. Consequently, they are experiencing a great increase in demand with which they themselves are struggling to cope. The increasing concentration of services in urban areas,
and the economic effect that follows, also reduces the opportunities for young people in rural areas to develop academically and professionally within their home region.

However, the withdrawal of public funding presents the sector with the opportunity to reshape itself. Having previously relied on the public purse for a substantial proportion of its income e.g. Supported Housing, we are working with Foyers to develop a new finance model which accounts for the current funding climate while finding new means of generating income and recalibrating their approach.

3) How do charities seek to innovate, particularly in the digital arena?

The Foyer Federation is a small, national charity with innovation at the heart of its mission. We deliberately seek to remain small, therefore, retaining the agility required to successfully navigate a dynamic sector. Although we envisage a digital aspect to our Quality Assurance and Theory of Change initiatives, securing funding to help drive this is challenging. This is because, although investors want to invest in innovation, they are wary of risk; that is to say, investors typically want to fund a specific innovation, rather than your capacity to innovate. Thus a difficult balance must be struck. We have, however, had some success in striking this balance, with the Esmée Fairbairn Foundation, Tudor Trust and Paul Hamlyn Foundation.

4) Governance and leadership

Working in such a dynamic and varied sector means over time the skills required to lead within it change. From rapidly evolving technological developments to an uncertain political landscape, the leadership must develop its own skillsets and be active in taking on new talent, ensuring the organisation is led by those familiar with its sectoral context. Similarly, in light of the sector’s variability, governance must exhibit a terrific ability to anticipate future trends and adjust the organisation’s course accordingly.

The Foyer Federation recognises the importance of good leadership and conducted a review of its governance in the 2000s. By halving the size of our board and removing the council altogether, we became a slicker, more streamlined organisation. We also introduced fixed term governance, a mechanism which enables the removal of a chair when a fresher perspective is required.
Consistency of leadership is also vital, and with this the challenge of succession planning. With the Foyer Federation’s Chief Executive, Jane Slowey, set to stand down early in the new year, the board has recognised the importance of consistency of values and clarity of vision. In employing these criteria as the basis of a search for a successor, the board is ensuring that the Foyer Federation retains its unity of purpose throughout its numerous incarnations of leadership and changes in landscape. This is imperative to the organisation achieving its long-term goals of changing the attitudes towards and lives of young people.

A good deal of support exists for charitable bodies to turn to when in need of guidance or advice. For example, the National Council of Voluntary Organisations, certain legal firms and even our auditors all draw upon their respective expertise to support numerous elements of our governance. On the occasions when we have identified issues, the Charity Commission has proved very helpful. However, the CC has become more of a regulator and less of a supporter of good governance in charities. There needs to be an improved relationship between charities and CC, one based in mutual trust.

5) What role should trustees play in the performance and effectiveness of a charity?

Trustees occupy a unique position. Although fully apprised of the organisation’s activity and direction, they are detached from the day-to-day operation. This lends them an elevated perspective, setting strategy and assessing risk while holding the centre of the mission in trust. Further, trustees must adopt a strong ambassadorial role, embodying the organisation’s values in their interactions with others and promoting its activities.

The selection of a diverse board is here imperative. The dangers of organisational groupthink are well-documented in recent financial history. Uniformity of thought may preclude new and innovative solutions to tackling existing problems, while a diverse board bringing together an eclectic range of experiences and perspectives encourages healthy debate and fresh avenues of thought.

7) What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

Where the assurance of state funding once minimised the risk faced by charitable projects, the government’s austerity agenda has increased the risk faced by the charity sector by reducing and even eliminating this source of guaranteed income. This has jolted the sector, not only into developing new and financially independent models of funding, but also into
reassessing its risk management strategies. In essence, charities have been forced to become less risk averse, preferring to channel resources and capital into areas of proven necessity than venture into potentially perilous unknowns.

The Foyer Federation’s Seven-Year Vision enables us to stay in keeping with our evolution, asking where we want young people to be in seven years. This avoids a more short-termist view where changes within the immediate political landscape have greater weight. This “Seven-year itch” developed organically after observing that our natural cycle ran in seven year cycles.

There is a tension within the sector between sharing good practice and competitive advantage. This tension results from similar organisations pitching to the same funders while simultaneously trying to achieve their mission in partnership with their competitors. The reduction in funding is set to exacerbate this tension further. If the Government wants greater collaboration across the sector, it needs to take this factor into consideration.

10) What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

The Foyer Federation has been supporting the development of a network of Foyers in Australia. The Australian state is far smaller than in the UK, with no housing benefit and a greater focus on learning and work. With a Conservative Government working to reduce the size of the state, we clearly have a great deal to learn in this partnership.

10 October 2016
Giving Evidence — Written evidence (CHA0027)

From: Caroline Fiennes, Director, Giving Evidence,

**Context:**

I, Caroline Fiennes, have worked in the UK charity sector and philanthropy for ~15 years, first at New Philanthropy Capital, then as an award-winning charity CEO myself (plus trustee of various things), and more recently as author of the acclaimed [book](#) for donors *It Ain’t What You Give, It’s The Way That You Give It*, director of [Giving Evidence](#) (see appendix here), and [FT columnist](#).

I’m sorry that this submission is not formatted or expressed particularly well: my mother died last weekend, somewhat unexpectedly, so obviously there are urgent and important pressures on my time right now. I am happy to discuss the content here – ideally after Sept 8th.

**Content**

**Numbered as per the points on your call for evidence:**

**2. Pressures and opportunities**

Well, there is the mad pressure for charities to 'prove their effectiveness'. This sounds like a good question but is in fact a dim question and creates a giant waste of resources. 'Proving' is a big word - in science, one hardly ever 'proves' anything - rather, you just reduce the uncertainty around it. Plus 'proving' (or reducing uncertainty) is about *producing* evidence, and most operational charities aren't geared up to *produce* research: they have neither the funds nor skills nor incentives to do it well - so generally do it badly. This (a) wastes their time, and (b) bad research produces misleading answers so it’s often worse than nothing. Discussed here: [www.giving-evidence.com/oops](#)

Government could change how it handles all this impact measurement stuff in its contracts - they’re often the most wasteful in terms of giving tiddly sums for ‘evaluation’ which are too small to produce good research so instead produce rubbish research. Public contracts often include budgets for evaluation that are each too small - but which collectively could enable something useful. For example, Giving Evidence recently found a UK charity with umpteen government contracts each with ‘evaluation’ budgets of ~£5-10k, each is which is too small to ‘evaluate’ anything reliably but which collectively could have enabled one or two decent pieces of reliable research. Professor Sir Richard Peto (discovered the link between cancer & smoking) says that research should ‘ask an important question and answer it reliably’: contracts from government and elsewhere which EACH include some tiny budget for ‘evaluation’ are the opposite – they require that EVERY question is asked, and NONE (well, few) gets answered reliably. Government could fix that for its own contracts.

**3. Barriers to innovating**
Include the need to have 'proven' impact. Instead, better if donors / funders /commissioners asked for (or could find themselves) whether the proposed work is likely to be good given the sum of human knowledge, ie., whether it is informed by reasonable evidence, rather than having generated it itself already.

Also the aversion of donors / funders to admin costs and unrestricted funding (and risk) which inhere in innovation. Discussed here and here.

4&5. What skills are required to lead and manage a charity? What role should trustees play in the performance and effectiveness of a charity?

They include being able to find & apply existing evidence. Nobody ever talks about that (except me!!) Most doctors don't generate evidence but you hope to god that they read it & heed it. Most operational charities should get good at finding & applying reliable research evidence, e.g., from academics.

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

Well, letting them see what's going on, and ask questions occasionally would be a good start. We recently asked how many charities & foundations (all of whom get tax subsidy & defend it to the hilt) even allow members of the public to attend any of their meetings. Any guesses? Barely any. Research here. What are they all trying to hide???

Also, why is there no 'tripadvisor' for the charity sector? If I hate the service I get from (say) Macmillan, how do I let donors know that? currently I can't. Equally when some donor client of mine asks about xyz charity, the first thing I want to know is what its 'customers' think of it; and I can't find that out. Fixing that isn't obviously gov't's job, though for the charities which gov't / public agencies fund /commission, maybe it is.

7. What are the current challenges to the sector?

Look, the fact is that charity governance is terrible. I have literally yet to see what I'd call a functioning board, after ~15 years. Nobody (except Alan Yentob) has a reputation affected by what happens to a charity whose board their on, so most trustees have no skin in the game. You can tell just by their attendance record. The problem's structural: charities are accountable to their boards, but most boards as essentially random people, many of whom have literally zero experience of the problem they're meant to solve. SSIR had an article recently about the increasing wealthiness of US charity boards - charities who are meant to be serving the poor. Most boards are just a deadweight cost for the management team: the management has to 'service' the board because the law says that the board has to be there, but few boards actually help. KidsCo is no exception here.

Stephen Lloyd, bless him, was on my board and was a notable exception.

9. What should the role of Government be with the sector?
I don't know about this philosophically, but government could be a MUCH better funder. I did a whole talk to the NAO about this: I can send my slides /notes if you want (and a bad video of it!)

10. What can the charitable sector learn from other sectors?

It can learn a ton from evidence-based medicine about how to - and not to - produce, share and organise evidence, and how to encourage/enable/incentive (and monitor) practitioners to use it. That's a 20 min discussion right there.

Some relevant material is here about how education can learn from EBM, and in this talk to the Liverpool School of Tropical Medicine.

Appendix: About Giving Evidence

Giving Evidence’s work has two parts: consulting and campaigning. They are closely connected, in that client work often raises, refines or tests ideas on which we campaign.

Consulting. We help major donors and operational organisations use data to select / refine their focus, and improve their operations, both by commissioning and using research, and by integrating evidence into their decision-making processes.

Campaigning. We speak and write publicly about the problems with evidence in the charity sector and about what donors can do; and we publish new evidence. For example, we:

- published the first ever data (rather than just opinion) in the long-running debate about whether charities should be judged on their admin costs. It was one of The Guardian’s most read pieces of the year.
- published analysis showing that the evidence from the world’s first social impact bond (‘pay for success’ mechanism) won’t be robust enough to show whether it’s worked or not.
- wrote recently in The Economist and Financial Times about how donors could avoid waste and improve performance by sharing more information about their work.
- speak at high-profile events such as the Arab Foundations Forum, the Skoll World Forum, TED, taught at Yale and Cambridge Universities, and many events for general audiences.

Giving Evidence was founded by Caroline Fiennes, one of few people whose work has featured in both OK! Magazine and The Lancet. She has worked for over a decade in making non-profits more effective and advising major donors around the world. Caroline was an

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Giving Evidence — Written evidence (CHA0027)

award-winning charity CEO, and her book *It Ain’t What You Give* was described in the press as ‘the Freakonomics of the charity sector...indispensable... relentlessly logical... engaging, informative, irreverent ... long overdue... a tour de force’.

Caroline is on boards of The Cochrane Collaboration, The US Center for Effective Philanthropy and Charity Navigator. She speaks often on TV and radio, and at international conferences, and writes in many channels, and is a prize-winning philanthropy advisor.

“*Caroline Fiennes is a great source of advice about charitable giving. She helped Eurostar become effective very rapidly*”

— Eurostar CEO Richard Brown

“*Caroline Fiennes provided excellent advice to the ERM Foundation ...She has a strong understanding of philanthropy and how it is best done in a corporate context.*”

Robin Bidwell, President of ERM, global environmental consultancy

30 August 2016
Gloucestershire Rural Community Council (GRCC) — Written evidence (CHA0069)

Respondent

GRCC (Gloucestershire Rural Community Council) is a Charitable Company which exists to support Gloucestershire’s communities through change, helping them to help themselves. We pride ourselves on providing professional advice and support to the voluntary and community sector and are part of a network of Rural Community Councils throughout the country.

The following comments respond to the 10 questions within the call for evidence issued by the House of Lords Select Committee on charities and are based on GRCC’s experience of working with large and small voluntary organisations in Gloucestershire. Please note that paragraph numbers below do not correlate to question numbers in the Call for Evidence paper.

Response

1. Purpose:
   a. The purpose of charities is to bring additional public benefit by tackling a wide range of social, cultural and technological issues facing our society.
   b. In essence they are businesses which reinvest their surplus rather than redistributing profits and those who employ staff should do so in a strong business-like manner. The range and scale of organisations is vast– from unconstituted organisations working, in a low key way, to improve local facilities to multi-million £ international organisations. Herein lies one issue: We are all ‘lumped together’ as a sector yet the issues faced by different types and sizes of organisations are very different. The introduction of Community Interest Companies and Social Enterprises has further confused the identity of the sector and high profile charitable failures such as Kids Club and aggressive fund-raising methods have blighted the sector.
   c. Volunteers are crucial to the sector as they provide their services free of charge, reducing costs of support at the local level. Volunteering also brings benefits to those who volunteer– from providing a framework to their week, thereby combating loneliness and isolation, to building a pathway to work. However the fallacy that volunteering is ‘free’ provision needs to be challenged: Some element of management is necessary to ensure that volunteers are organised, supported in their roles and are valued. This often requires paid staff input.

2. Regulations stifling creative solutions
   a. In some cases, regulations around trusteeship (or perceptions of regulations) do not support creative local solutions.
   b. It will become increasingly important for charities to question where there is a better way to fulfil their mission. In some cases successful mergers have taken place but too often, due diligence and the legal requirement for trustees to do everything in the best interests of their own charity may be problematic.
c. Eg if there are 3 community building charities in a locality- each in medium/poor state of repair and none of which are fully used, a creative solution might be to sell one property and use the profits to bring the other 2 buildings up to date. Regulations around core responsibilities of trustees could be relaxed or clarified to allow groups to bring forward such solutions and GRCC would be delighted to work with groups on a solution.

3. Pressures and opportunities
   a. As local authorities increasingly concentrate on their statutory duties due to funding pressures, there seems to be an expectation for very small organisations to pick up activity.
   b. Pace of change is an issue- as there are examples of only 6 months allowed for change from a fully funded statutory sector led service to a fully community-run service. In many instances the local authority makes transition support available but ideally there should be a minimum of a 2 year transition period.
   c. There are often more pressures on the charitable sector in rural areas to take over services as it can be more difficult to prove hidden deprivation- eg all of the 7 library assets transferred to the community (c2012) were in rural districts of Gloucestershire.
   d. Some groups which have taken over services are flourishing and the communities they serve are benefitting from improved, creative service delivery. This must be showcased and celebrated.
   e. However the sheer number of services being transferred – eg library, youth, children’s centre- all within a few years of each other- can put intense pressure on communities. Those communities/groups need to work together to assess their priorities and decide where to focus their attention and support is often needed to facilitate those discussions.
   f. We are seeing new ways of volunteering eg young people may prefer to volunteer at events or as part of national campaigns but GRCC also sees considerable volunteering fatigue as a smaller number of people try to take on more. Some groups can find it difficult to plan for succession; young retirees may wish to travel or are reluctant to commit to regular volunteering. They may have caring responsibilities eg for elderly parents or for grandchildren.
   g. The more successful charities will accept and work around different patterns of volunteering and they may capitalise on opportunities to work with businesses to boost the number of people involved. These approaches should be showcased and replicated.
   h. There is a pressure on charities to reduce overheads in order to make their bids and tenders for commissioned services more competitive. This has 2 implications:
      i. Charitable organisations are running contracts at a loss, effectively subsidising the commissioning organisation. A sustainable charitable sector needs to operate at full cost recovery and commissioning organisations need to respect this.
      ii. Pressure to reduce overheads leads to organisations which simply concentrate on delivering current operations; not on future plans and creative solutions.
4. Innovation
   a. In addition to the points made above re encouraging creativity (2c) use of social media and crowd funding/ community shares has made it possible to capture people’s attention and attract new donors. Some of these are reasonably new techniques and success will breed more trialling and creativity. Again examples need to be showcased and groups supported to utilise these new techniques. GRCC has a firm belief in the value of gathering and disseminating case studies, ‘twinning’ organisations and connecting people who have ‘been there; done that’ and GRCC provides these opportunities in Gloucestershire.
   b. Other technologies can also lighten the load for groups eg GRCC has run sessions for those groups managing community buildings to identify how technology could be used to benefit - eg in set up and heating venues, payment and booking methods.

5. Trustees and capacity building support
   a. Skills required to run a charity are clearly highlighted in Charity Commission guidance and financial acumen, business planning and knowledge of sector are key to successful governance. Other aspects of knowledge eg HR, marketing can be purchased if necessary but the ability to have oversight of decision making is crucial.
   b. Trustees should support and hold to account those who carry out operations. In too many cases trustees will delegate but not ask for reports or any confirmation that tasks are completed.
   c. Quality standards such as PQASSO (others exist eg ACRE’s Good Practice Quality Standard) allow organisations’ quality to be assessed. The Charity Commission is reducing its breadth of work to concentrate on monitoring charities and appears to be less able to provide support to burgeoning or established charities.
   d. We understand that the Charity Commission is considering removing its endorsement of any quality standard for the sector. This is regrettable as the Charity Commission Hallmark of an Effective Charity endorsement encourages groups to complete such externally assessed Standards.
   e. Plain English should be used to simplify Memorandum and Articles of Association templates to demystify them and remove legal jargon.
   f. The Charity Commission stance on risk may be considered to prevent creativity and some trustees are reluctant to ‘speculate to accumulate’ as they feel they may be held responsible for any losses from pilots or experiments.
   g. The amount of regulation imposed on charities seems greater than that imposed on eg social enterprises or CICs. In recent years there has been an increase in number of organisations which purport to benefit the public but in fact they are more akin to private businesses and there are examples of such organisations taking trade away from charities, then distributing profits made to shareholders rather than reinvesting. There should be more accountability for such organisations to justify their methods of working and public benefit.
   h. In Gloucestershire organisations such as GRCC provides support to trustees to increase their knowledge, aspirations and expertise. We provide workshops and training, advice lines and also provide information sheets on specific topics. Networks which we run allow opportunities for peer–to-peer support and we also ‘twin’ organisations. Reduced funds for infrastructure support is, however an issue,
and there needs to be increased investment in infrastructure capacity building support.

i. GRCC has had several conversations with funders about our ideas for improving and changing support methods to build capacity in the sector but, despite the fact that feedback suggests they feel our ideas are excellent and pioneering, funders state that there is a reluctance to fund infrastructure projects.

j. Future investment in the sector should include making available strong capacity building support and enabling groups to monitor their impact and prove value.

5 September 2016
Financial resilience in charities
Authors from Bristol Business School, University of the West of England

Summary
Recent work at the University of the West of England has raised questions about the financial resilience of charities; in particular, whether a mismatch between income, staff costs and reserves makes charities ill-prepared to deal with the challenges of discontinuous income and large reductions in funding arising from grant cuts. We are also concerned that charities are being given inappropriate advice about the amount of reserves they should be holding.

Dependence on income types and likelihood of survival
We analysed financial data from 2010 onwards for 40 charities, half of which had ceased operation since the beginning of 2015. Income streams were divided into grant income, donations, and income raised through ‘activities’ such as retail, service provision and ad hoc events.

Analysis of this data shows that successful charities earn a larger proportion of their income from activities than charities which died, although not much more. Successful charities, on average receive around half of their income from donations and around 20% from external grants; both rates have been fairly stable over time, although the grant share has fallen in recent years. In contrast, failing charities are likely to
receive at least half of their income from external grants; the fall in this since 2013 is more noticeable.

A similar story arises from looking at the ratio between different types of income and staff costs:

Successful charities have, on average, sufficient income from activities and donations to cover their staff costs - that is, the ratio of these types of income to staff costs is over 100%. This holds even though the amount of donated income relative to staff costs has dropped substantially since 2010. In contrast, non-surviving charities were found to be reliant upon grant income and did not cover their staff costs by donations and activities.

Finally we can compare financial resilience by looking at how the financial assets held in reserve by charities cover their staff costs.

The surviving charities were found to have sufficient assets to cover their annual staff costs roughly four times over; in contrast, non-surviving charities had only just enough assets to cover staff costs for one year.

We also carried out a more complex statistical analysis, where several factors are combined to
look at the relative financial strength of the charities. These confirmed that major factors associated with a charity ceasing to operate in the last year or so are:

- a high proportion of costs relative to income
- failing to return a surplus in anyone year
- a high proportion of income received as grants
- a high proportion of staff costs (but not total costs) relative to the amount of financial assets held

Whilst these results are only indicative (forty charities over six years is a relatively small number of observations; and a convenience sampling method was used to select the charities, which is not ideal for this sort of analysis), alternative ways of studying the data appear to produce similar results. Risk analysis confirmed that being a recipient of a grant within our sample was a significant predictor of failure.

Discussion
As part of the wider reform process many services once provided directly by the public sector have now been outsourced to the voluntary sector with funding provided through grants. We believe this may have lead to ‘mission drift’ in some cases where charities become focused on providing the activity attached with the external grant, as opposed to generating sustainable revenue under their own control. Our research leads us to query the sustainability of this approach.

There was a large level of grant dependency observed within the dead charities, and a lack of reserves. A drop in grant income can lead a charity into dangerous financial waters, particularly if it is highly dependent on a small number of funders. Grant income is also more likely to be linked to contracts for providing a service, providing less opportunity to build up reserves, even when this is stable.

Charities holding a larger reserve in proportion to total income were more likely to survive, perhaps related to the unreliable nature of grant income in the current environment. Compounding the challenge is the notion that holding reserves within the charity sector has been considered taboo by significant regularity bodies and advisors to the sector.

‘Holding a high level of cover for risks and unforeseen events appears sensible, but is this right if worthwhile projects are going unfunded?’ (Executive Summary ‘Beyond Reserves’, Charity Finance Group 2012)

‘To hold income in reserve rather than spending it, trustees rely on an explicit or implicit power to hold reserves and they must use that power in the charity’s best interests.’ (Charity Commission CC19, 2016)
Elizabeth Green, Dr Felix Ritchie, Dr Glenn Parry and Dr Peter Bradley—Written evidence

‘... charities should assume that they should use the funds they receive and should have good reasons for keeping funds back and not spending them.’ (Charity Finance Group, 2012)

The Charity Commission [CC] (2016) recently published an accounts monitoring review, into ‘charities with audit reports identifying that they may be in financial difficulty’. Within this report, the criteria the CC employed to identify the sample was to take any charity where the auditor’s report in the accounts included a ‘going concern’ section. We have examined our sample of charities and have found that in the latest available accounts only 20% of those charities which had ceased operating in 2015 included a ‘going concern’ in the auditor’s report. Furthermore, of the successful charities in our sample 20% were reported as having a ‘going concern’ in the auditor’s report.

To explore this phenomenon we have examined the contents of the text on going concerns. There is a notable variation in content of concerns between the successful and ceased charities:

<table>
<thead>
<tr>
<th>Successful Charities</th>
<th>Charities which ceased in 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concern surrounding dependency on government grants</td>
<td>Significant loss in the previous financial year and small loss that financial year.</td>
</tr>
<tr>
<td>Difficulties in profitability due to economic climate</td>
<td>Charity has no endowed funds.</td>
</tr>
<tr>
<td>Difficulty in modelling income from donations.</td>
<td>Limited secured funding</td>
</tr>
<tr>
<td>Difficulty in predicting income from donations and legacies.</td>
<td>Companies reliance on external funding</td>
</tr>
</tbody>
</table>

Table 1: Message contained in the content of ‘going concerns’ section of auditor reports on charities

The table above demonstrates the variation in what is considered as a ‘going concern’ by auditors. In the charities which ceased operations in 2015 a ‘going concern’ was explicitly represented as a business viability warning. In contrast, in successful charities ‘going concern’ often represented a potential fall in profit, effectively similar to the ‘profits warning’ that may be declared by a listed company to its investors. The ambiguity of the ‘going concerns’ as an indicator demonstrates the complexity and viability of using such a criteria from auditors reports as means of identifying financial difficulty.

Our analysis suggest that charities should be holding a significant proportion of reserve assets, particularly if they are expected to support outsourced service through grant funding: resilience does not seem to be consistent with maintaining minimal reserves. This
Elizabeth Green, Dr Felix Ritchie, Dr Glenn Parry and Dr Peter Bradley— Written evidence (CHA0052)

raises wider concerns surrounding the advice given to charity trustee’s and the evidence informing this guidance.

We would recommend that much clearer guidelines are issued on what constitutes as going concern for auditors, with a distinction made between business viability and profitability forecasting. Further, auditors could draw upon the analysis presented here with regards financial dependency on grants and income from activities as indicators of how viable a charity is likely to be.

The analysis provided here has focused only upon the financial perspective. We have not considered in this piece the wider sustainability context. A financial deficit does not exist in isolation; it is symptomatic of multiple failures within a system which has, through intention or otherwise, turned a number of charities into service providers.

**Actions**

This work was restricted by the limited information made available by the Charity Commission on the financial activity and performance of charities; we recommend the Commission substantially improve its data strategy and encourage engagement with the academic community.

A robust review of guidance provided to charitable organisations on financial management should be carried out:

- charities need to be aware of the sustainability implications of a grant-funded income model
- advice on minimising surpluses in particular should be reviewed

The Charity Commission may consider developing a financial model specifically for the UK charitable sector to predict financial risk and to enable them to target their limited resources effectively.

Auditors need guidance on what should be considered as a ‘going concern’, and provide consideration of what should be reported under such a section heading.

There is a need for a wider review of the implications for the charity sector of the continued drive to third-party provision of government services.

**Methodological note**

Very little has been written comparing the financial performance of charities. Most analyses concentrate on taking a single charity as a case study; this is a valid methodological approach for understanding charities but does not allow us to generalise easily, as we have done here. We believe this is the first study to identify system risk factors in charity finance, although we acknowledge that this research is a preliminary scoping study.

There is a substantial lack of current, robust, and longitudinal studies surrounding financial resilience and risk within the charity sector. The literature available focuses predominately on qualitative case studies and lacks generalisability. Modelling of financial data to predict
organisational survival was conducted by Tuckman and Chang (1991) and identified the indicators of risk were equity, revenue, administrative costs and operating margin; the model has been supported for the charitable organisations by Greenlee and Trussel (2000). Another model developed by Gilbert, Menon and Schwarz (1990) indicated that a negative net income over a consecutive three-year period was a predictor of financial vulnerability. It is important to consider that both these models were created in the USA, using USA charitable data. Analysis of the UK dataset used for this paper supported neither of the models. This could be attributed to many possible causes including the variation in reporting and governance of the charity sectors in the USA and the UK.

References


Acknowledgement

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[This is an updated version of the original submission].

1 October 2016
The Australian NFP sector grew at exponential levels in the 80s/90s as Government outsourced a lot of its work. After being one of our fastest growing industries for many years (above mining), this has now slowed and with it confusion on what the sector should actually be responsible for and who’s responsible for funding it.

It’s worth noting that the simultaneous rise of social enterprise, micro-finance and good corporate citizenship has also blurred the line between ‘charity’ and ‘company’ in Australia. We’re seeing growing support for crowd funding and competitive neutrality when it comes to how we address social problems, with charities no longer holding a monopoly on ‘ethical’ work.

A few key policy reports that reflect this reform discussion:

- Government’s Taxation Review – Dr Ken Henry, 2010
- Contribution of the Not-for-Profit Sector - Productivity Commission, 2010

This spurred the following govt initiatives:

- National Compact, 2010-2012
- Establishment of an independent charity regulator, 2012
- Statutory definition of charity, 2013
- Prime Minister and Community Business Partnership, 2014-Current
- Labor creates shadow Minister for Charity
- Now – the possible extension of Consumer Law to fundraising practice

Key take-away’s from our sector that could help inform the UK’s next steps:

1. Challenge adapting to a changing funding environment
   - Stalling govt revenue, insufficient donor/philanthropic/corporate support to fill gap
   - Learnings on how govt can help build a culture of giving and promote structured giving

2. Challenge embracing digital developments and innovation at the same pace as the private sector
   - Govt support for sharing info, and grants that enable risk and collaboration
   - Possible further govt research here

3. Challenge being taken seriously by govt
   - Competitive nature of the sector, poor investment in ‘lobbying’ and impact measurement = has compromised the sector’s ability to advocating and influencing the national agenda for effective charity related policy
• Also, inadequate data on the sector (compared to the US for example) has compromised the ability of the sector to make its case and plan for the future
• Need to actively listen to the sector and change fragmented outdated legislation that wouldn’t be accepted by any other industry

4. **Similar challenges of protecting independence under a conservative govt**

• Gag laws and ongoing challenges re tax benefits for charities undertaking advocacy
• What this means for sector impact and independence

5. **Shifts towards competitive neutrality for procurement/tendering (charities losing priority)**

• Services such as child care, housing support or aged care – being run by companies rather than charities
• What this means for quality and community access

For an overview of the Australian sector’s economic footprint:
- Also the 2010 Productivity Commission report mentioned above

*19 October 2016*
Guide Dogs — Written evidence (CHA0109)

Guide Dogs provides mobility services to increase the independence of people with sight loss in the UK. Alongside our mobility work we campaign to break down physical and legal barriers to enable people with sight loss to get around on their own terms.

The role of charities in civic society
Charities fulfil an important function in civil society in England and Wales. Charities give support to those in society who need it most. Charities’ work spans a range of areas: medical research, supporting hospitals and hospices, supporting disabled people, protecting vulnerable children, protecting animals and the environment and providing life-saving support during emergencies overseas.

Guide Dogs is unique and we are not aware of any private, public or third sector organisations providing a similar service. We are the largest breeder and trainer of dogs in the world, supplying approximately 850 guide dogs per annum to people with sight loss. We support 5000 active guide dog partnerships and we provide services to over 10,000 people in the UK.

The Government rightly respects the voluntary sector as partners in securing a transformed, sustainable health and care sector. The provision of guide dogs and other mobility services is crucial to the physical and mental health of the people we support. We promote independence and wellbeing, reduce loneliness and isolation, and in doing so, contribute to local and national health priorities. Working as Blind Children UK (part of the Guide Dogs group) in a year we provide habilitation mobility and lifeskills training to over 1,300 children with sight loss and work with over 850 families with a child with visual impairment.

In the words of our beneficiaries themselves:
“Getting a guide dog ... completely changed my life. I had tried to learn how to use a white stick, but it made me feel so isolated. It’s been eight years since I lost my sight, but with my lovely guide dog Twiggy by my side nothing can stop me!” Sally

“Now it’s like I have a whole different life. Before [guide dog] Hattie I was nervous and I wouldn’t leave the front door, now I’m everywhere.” Becky.

"Guide Dogs made a huge difference to my life. It means I can be a Mum again and take my children to school, without having to rely on anybody else. That means so much to me". Diane

In addition to the services that charities like Guide Dogs provide, charities add more value to the economy than the arts and agricultural sectors. They employ an estimated 765,000 people in total and the sector is a major employer of disabled people (around 20% of its employees). Guide Dogs is a proud “two ticks” employer and promoting diversity within our workforce is a core organisational objective.

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201 Blind Children UK, Report and Financial Statements, 2014
202 nfpsynergy Understanding Charities in the UK: Facts and Figures
In addition to our 1,400 paid staff, we have around 16,600 active volunteers filling 26,000 roles. Volunteers give more than 16.7 million hours of their time to us each year and we couldn’t provide our services without their support. Around a third of volunteers work in dog-care roles, a third in fundraising and a third in providing services such as driving or sighted guiding. Around 800 of our volunteers are also service users, which is higher than the sector standard for volunteers.

Our volunteer demographic is mostly older people in dog and fundraising roles but we attract younger volunteers through initiatives such as our “A Million Hands” Scouts Association partnership through which we reach out to 500,000 young scouts.

The number of our volunteers increases by around 1,000 each year, many of whom are younger people who join our sighted guiding service MyGuide.

Guide Dog volunteers get a lot out of their work with us through “giving back” to society and learning new skills. A recent volunteer survey found that wanting to learn skills was a strong reason motivating volunteers and we spend time and resources in developing volunteers: many of our volunteers said that they had been “trained” by Guide Dogs and a large number of volunteers strongly recommend the experience of working with us.

Pressures and opportunities
We are constantly under pressure to meet demand. We currently have around 750 people on our waiting list, split almost equally between people waiting for a first dog and those waiting for a successor. We make a lifetime guarantee to all guide dog owners that we will provide them with a guide dog for as long as they need one. We pay for all breeding, training, food and veterinary costs of a dog during its life and the total cost of a guide dog is almost £55,000.

The ability to fundraise presents a significant challenge for Guide Dogs as well as the rest of the sector. Forty-six per cent of the sector’s income comes from individuals, compared to 33% from government grants and contracts. Individual giving is therefore extremely important and British people are ranked as some of the most generous in the world, with around 22.9 million adults donating money to charitable causes in a typical month. Guide Dogs receives only minimal government funding (such as the recent allocation of LIBOR fines to provide services to veterans with sight loss) and so, to fulfil our lifetime promise to guide dog owners, we depend on donations from members of the public more than others in the sector.

Media reports in 2015 showed some charities engaged in poor fundraising techniques, some of which were truly shocking. However, the vast majority of charities operate ethically and responsibly. The Public Administration Select Committee found “most of the charities in the

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203 NCVO, UK Civil Society Almanac, 2015
205 UK Giving (April 2015 report)
UK do not engage in [poor fundraising] practices" and evidence submitted to the committee showed that most fundraising “happens to a high standard”.

Guide Dogs hugely values our supporters and we want our fundraising to match their expectations. We don’t share supporter details. We closely monitor fundraising and adhere to a strict contact strategy to limit frequency of contact. In 2014 our overall complaint ratio was 0.000039% (over 6 times lower than the industry standard).

It is essential for the sector to regain the trust of the public and we support safeguards to protect donors. At the same time, regulation needs to get the balance right to avoid unintended consequences and serious harm to the sector.

The two main proposed reforms to fundraising regulation are the Fundraising Preference Service (FPS) and the EU General Data Protection Regulation (GDPR) which will require charities to obtain “unambiguous informed consent” from their contact. If calibrated wrongly, the FPS and GDPR could wipe out years of positive relationships with donors and potential donors, and put our service users at risk.

It is unclear how the FPS and GDPR will work together and fit with existing legislation and reforms already made. The holistic impact of all reforms have to be considered to measure the effect on the sector and to reduce conflicts between the FPS and GDPR and confusion for the public. For example, the FPS requires individuals to “opt out” of receiving charity communications, whilst the GDPR may require people to “opt in”. The risk is that this causes confusion rather than empowerment for the public.

Further confusion may arise from the FPS’ duplication of function with existing preference services. Indeed, the Information Commissioners Office has stated:

“The new service would both duplicate some features of the already existing Telephone Preference Service and would confuse the public.”

The Opt-in Working Group, which is tasked with making recommendations based on implementation of the GDPR, have made a number of recommendations which go beyond the original scope of the GDPR. We are concerned that the group’s recommendations mean that charities will be held to more restrictive and limiting codes of practice than the commercial sector. For example, the Working Group recommended that charities should not mail individuals more than once a year. There is no comparable recommendation for commercial organisations, who can contact people as much as they want which means that the problem of individuals receiving too much unsolicited mail will not be properly addressed.

If a member of the public uses the FPS reset option, it will override existing instructions they have given to charities about contact and the latest proposals suggest charities will only be

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207 Evidence to PACAC Committee: FCS19 (Cancer Research)
208 Public Administration and Constitutional Affairs Select Committee, The 2015 charity fundraising controversy: lessons for trustees, the Charity Commission, and regulators, 2016
given one opportunity to contact the supporter again. We believe this kind of blanket approach is unnecessary, especially with the safeguards already introduced around the buying of data in the Institute of Fundraising Code of Practice which means that mailing volumes should have already decreased substantially. The FPS could lead to many people unwittingly opting out of communications from charities that they support. The PACAC found that the FPS would place limitations on charities’ activity that do not exist for any other sector, leading the Committee to conclude in its report:

“We are not persuaded of the case for a new Fundraising Preference Service.”

The FPS Working Group recommendations were published on 24 August and we are in the process of digesting the proposals. The design of FPS is critically important to the future of the charitable sector and so public and charities must be fully involved in shaping its development. A well-developed FPS should allow individuals to stop unwanted communications without disrupting correspondence from charities they support. A less sophisticated system would damage longstanding relationships between individuals and charities.

We support the need to restore public trust in fundraising but it is important that beneficiaries of charities do not lose out as a result. We therefore urge Government to undertake a thorough and holistic impact assessment of proposals to regulate giving across the UK.

Innovation

The smart cities agenda provides opportunity for innovation and we are working to make this as inclusive as possible. Building on our four-year collaboration with Microsoft on the Cities Unlocked project, Guide Dogs is working towards a future where interaction between people and their physical or virtual environments allows them to get around safely and confidently. Smart cities should combine the built environment, transport and public services (such as health, education, retail and entertainment) with new digital technologies to deliver consistent customer experiences that transcend a single service provider’s remit. Interoperability requires government support and facilitation to seed a new approach to delivering positive services.

Government and city administrations can help promote accessible innovation by:

- Including formal requirements in smart city tendering to proactively increase social inclusion, including requirements to work with disabled people.
- Funding smart city projects with a specific focus on cross-sector collaboration to improve inclusion.
- Introduce inclusion metrics and a requirement for initiatives to report progress against inclusion targets set by Government in consultation with stakeholders.
- Encourage standards organisations to focus on inclusion in Smart Cities standards and guidance documents, with an emphasis on interoperability.

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210 Cities Unlocked is a high tech solution to address the mobility challenges faced by people with sight loss in our cities. More information is available here: [http://www.citiesunlocked.org.uk/](http://www.citiesunlocked.org.uk/)
Digital mobility solutions will soon be as important as other traditional mobility aids such as wheelchairs, guide dogs and hearing aids. This needs to be recognised by national and local government, designers and technology providers so that inclusive design is at the front of the smart city and digital revolution.

Charities can assist in designing and testing new digital solutions, however they struggle to get digital innovations out of the research and prototype domains. Government support is therefore required to achieve scalability.

Mainstream digital technologies are still not fully inclusive, often requiring additional software or hardware, which increases the cost for the end user. The cost of digital equipment, and training to use it, is beyond the means of many disabled people. The best solutions run on mainstream tablets and phones, but currently these devices are not exempt from VAT as they are not designed solely for disability purposes.

**Governance, leadership and trustees**

The skills required to lead a charity are dependent on the charity’s strategy and. In general, the high level requirements for charity leadership are:

- Leadership skills
- Financial competence
- Understanding of governance
- Empathy with the charity’s purpose
- Strategic thinking
- Strong interpersonal and communication skills

Charities can ensure these skills are secured through carrying out a skills gap analysis to identify requirements and then recruiting in an open and transparent manner on a skills and experience basis.

Within the sector it is essential that there is an understanding of the importance of governance and that strong consideration is given within charities to employing a qualified governance professional or seeking external governance advice.

Trustees need to set and agree the strategy and enable the executive to deliver it in accordance with the charity’s vision, mission and values. The trustee role is strategic and there should be clear distinction between this and the operational role of the executive. Trustees need to give proper financial oversight and challenge where appropriate so that the charity is compliant with the law, and to secure the future of the charity. Trustees should select, manage and support the Chief Executive and set objectives to measure their performance and that of the charity.

The board is legally responsible for everything that happens within the charity so the relationship and trust between the CEO and Board is important. Trustees are responsible for ensuring that the composition of the Board is appropriate to enable them to function effectively and regular appraisals should be undertaken.
As with leadership, the charity should carry out a skills gap analysis for trustees and recruit openly and transparently to attract skilled and experienced candidates. Newly appointed trustees should undergo induction and ongoing training to ensure they understand the work and purpose of the charity; meeting service users and volunteers will give them invaluable insight. Regular Board meetings must be held and sufficient and appropriate information should be presented to help them make decisions in the best interest of the charity. If meetings are held on a quarterly basis, trustees should be updated on the charity’s activities and performance regularly in the intervening period.

**Accountability**

Accountability is achieved by ensuring that a charity’s aims and activities are within the objects set out in its governing document. A charity can be accountable by demonstrating through its activities and work methods its commitment to the published vision, mission, and values as this will enable stakeholders to assess and define the charity’s efficacy.

The charity should set targets and indicators to measure success based on the charity’s aims, beneficiaries’ needs, the quality of services and available resources. It should regularly review the objectives in its governing document.

**The role of the Government**

Whilst the Government and the charity sector have a positive and mutually beneficial relationship, there is a perception that the Government does not fully support charities’ campaigning work. According to the Charity Commission, political campaigning is “legitimate and valuable” for charities to undertake.211 However, there is concern within the sector that charities’ important civic role in campaigning could be at risk following comments and initiatives from Government such as the former Charities Minister Brooks Newmark comments in 2014 that charities should “stick to their knitting” and should not stray into the “realm of politics”,212 restrictions on charity campaigning through the Lobbying Act, and new grant rules which prohibit charities from using grants for “activity intended to influence - or attempt to influence - Parliament, government or political parties”.213

Guide Dogs undertakes political campaigning where necessary to our beneficiaries. For example, we campaigned on the issue of dogs attacking assistance dogs.

Between 2011 – 2013, 10 attacks on guide dogs were reported per month. Attacks have serious implications: in some cases they leave a guide dog owner alone with an injured animal, in others, dogs are withdrawn from service leaving the owner without their mobility aid and possibly unable to leave home. Even if a dog continues working, the psychological trauma of the attack on the owner and the dog can affect their ability to go out. In addition to the emotional impact of assistance dog attacks, the cost to the charity between was £170,000 between 2011-2013, money given to us by donors which would otherwise be spent on supporting people with sight loss.

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211 Charity Commission, Guidance on campaigning and political activity by charities, March 2008
212 Civil Society, Brooks Newmark: Charities should keep out of politics, September 2014
213 BBC, Charities ‘will be silenced’ by new grant rules, February 2016
As a result of our work, the Government made it an offence for a dog to attack an assistance dog, helping to address the issue. This illustrates how campaigning is a legitimate activity for a charity and an efficient use of charity resources. We would therefore welcome reassurances from the Government that it recognises the necessity of charities’ ability to campaign.

5 September 2016
This submission is made on behalf of the Hallé Concerts Society (the Society), a full-time professional symphony orchestra based in Manchester. The Hallé is constituted as a company limited by guarantee and registered charity and is supported by funding from both public and private sources. The Orchestra performs around 70 concerts a year in its home base and around 50 performances around the UK and overseas along with an extensive education and community programme reaching over 50,000 children and young people each year, as well as other groups. The Hallé generates income of approximately £9m each year of which around £1.3m comes from donations from individuals and trusts.

All answers are given from the point of view of the Society and similar arts organisations rather than making broader general points about the general charitable sector.

1. **What is the role and purpose of charities in civic society in England and Wales?**

1.1 The role of an arts organisation is to enrich the lives of its beneficiaries by providing high quality, engaging cultural experiences for as broad a demographic as possible.

1.2 For most arts organisations the fundamental role has not changed but the pressure to fulfil broader social roles has increased.

1.3 Charitable arts organisations differ from the commercial sector in so far as they strive to fulfil a public benefit role through affordable ticket pricing, access schemes for disadvantaged groups and supporting outreach work. They frequently present new, challenging work and other events which would not be viable in the commercial sector.

1.4 Charitable arts organisations can play a significant role in community cohesion by bringing together disparate groups in a common pursuit and by engaging hard-to-reach and challenging communities to give them a sense of belonging and self-worth.

1.5 The sector does benefit from volunteering - providing support for a wide variety of activities, however volunteers can bring their own problems and challenges and can divert management attention from core activity in pursuit of their own ends. The Society benefits enormously from the involvement of volunteers in a variety of ways, from unpaid board members and trustees, the members of the Hallé choir, and assistance with administration and fundraising.

1.6 Well managed volunteers are a valuable resource and are highly valued.

1.7 The value of arts charities and the role they play is not always recognised by politicians or the general public. They are sometimes easy to dismiss (wrongly) as being of interest only to a privileged minority or to take up valuable public funding which could be spent on other services (e.g. health), rather than encouraging as many people as possible to experience the wide-ranging emotional responses arts events can generate.
1.8 A more public recognition of the value of what charities do and the value for money they represent would help significantly. The cultural reputation of the UK and cities like Manchester has been built on a longstanding foundation of charitable arts organisations. These organisations have a significant economic impact both directly (through employment, spending etc.) and indirectly through attracting visitors and inward investment.

2 What are the main pressures faced by charities currently, and what impact have these had?

2.1 Arts charities (along with many others) face significantly increasing pressure on funding whether from central or local government grants, private sector fundraising and earned income. In addition, the negative impact of several high profile recent events in the broader charitable sector has undermined public confidence in charities as a whole and made fundraising more difficult. Funders are placing increased pressure to deliver more and more in terms of outputs and outcomes and are adding ever more complex reporting requirements which, in some instances, are diverting significant amounts of management time away from actually delivering the work.

2.2 The erosion of public confidence and the widespread criticism it has brought - nearly all to do with data management and fundraising methods – have further jeopardised the traditionally strong relationships arts charities have with their audiences and supporters. The sector works hard to ensure best practice in all aspects of data protection, and carefully self-regulates to try to ensure supporters at every level are left wanting to visit or give again.

2.3 We have noticed that while we have a loyal donor and supporter base, people are more cautious with their income and cancelling donations or reducing subscriptions citing financial reasons. Falling business confidence is affecting corporate sponsorship (an important source of our income.)

2.4 The impact of these financial pressures is inevitably that charities finances are more precarious and longer term strategic planning is overwhelmed by a need for short term action.

3 Innovation

3.1 Arts charities in general are innovative in their thinking whether about programming, audience development, engagements through digital means or otherwise. However the main barrier to innovation is risk and in the current climate of increasing pressure on funding, they are less able to take risk. For example we have been undertaking a major audience development programme to find new and more diverse audiences and through our education and community work to develop audiences of the future, but such activity costs money in the short term which may not have a tangible pay back for years.

3.2 Digital engagement is a good way for arts charities to both showcase their work more widely to diverse audiences who do not necessarily attend traditional arts venues and
also to engage more deeply with audiences. However the payback from digital engagement is less easy to quantify.

4 Governance and leadership

4.1 Charities need inspiring and visionary leadership with strong entrepreneurial skills, diverse experience and a good understanding of both governance, finance and external factors as well as the core purpose and values of the charity.

4.2 These skills can be gained by experience in the professional world and training and mentoring programmes.

4.3 Although some support exists through particular programmes e.g. the Clore Leadership programme, it is patchy and under-developed. Too many managers in the charitable sector are bogged down with day to day problems to set aside time to access the resources that are available (if they can find them).

5 What role should trustees play in the performance and effectiveness of a charity?

5.1 For a charity to succeed it must have a strong board of trustees who are engaged, sure of their role and supportive of management. The trustee body should cover a range of skills and experience appropriate to the charity. They must recognise the difference between executive and non-executive responsibility but be prepared to challenge management and hold them to account.

5.2 Trustees need proper induction into their particular charity and clear (and succinct) guidance on the role and responsibility of charity trustees from the Charities Commission.

5.3 It may be appropriate to introduce more paid professional trustees into the sector which might mean changes to charities governance arrangements and also conflicts with tax legislation. In our particular instance, to have paid trustees would mean that the charity would no longer be recognised as being run on an essentially voluntary basis by HMRC and would therefore not be able to take advantage of cultural exemption from VAT, thereby costing us over £300,000 a year.

6 Accountability

6.1 Charities should be transparent both in publishing a record of their activities and their finances. As an arts charity in receipt of public grant funding, we are well used to reporting in detail to our funders although the requirements of reporting are sometimes so detailed and onerous to be of little apparent benefit to the recipient of the information.

6.2 Charities should assess their going concern on an annual basis in the same way that companies do and should have an appropriate reserves policy. The Trustee board is critical in assessing the long term viability of an organisation.
7 Resource management

7.1 Current challenges to financial sustainability are the broader economic context, reducing public funding and uncertainty around the impact of Brexit on the workforce.

7.2 Information sharing, both formal and informal, is invaluable. Various associations provide useful common ground to share good practice, but it is also true that umbrella organisations can sometimes divert resources away from the very front line organisations that they are there to help.

7.3 There is increasing pressure from funders to look at sharing resources. While there are some opportunities to do this and to make efficiency savings, it is not always the case that combining resources delivers more efficient or effective outcomes.

8 The role of Government

8.1 Local Government should have an overview of the charitable activity in its area but should not seek to direct the charitable activity itself. It should have a regulatory role in monitoring outcomes and outputs which it is funding.

8.2 The Charity Commission’s role should be clarified and strengthened in terms of regulating charities and having an ability to step in earlier when problems are identified, if necessary.

8.3 The Charity Commission appears to have less power than it used to.
8.4 Greater local devolution should mean that resources can be focussed on local charities delivering to the local agenda and should enable charities to have more of a say in determining policy.

8.5 However, it is possible that local devolution could lead to a lack of national oversight, for example for the Arts sector, with arts charities even more susceptible to local funding whims and unbalancing cross country provision.

8.6 The regulatory regime should be simplified and co-ordinated so that the charitable objectives of one piece of legislation are not wiped out by another. One example being the benefits of paid professional charity leadership being countered by negative indirect tax implications. The tax situation of most charities is extremely complex and some simplification would be beneficial.

9 Lessons from other sectors and countries

9.1 The more prominent role of philanthropy in the US and the tax regime which actively encourages it are models which we would like to see applied here. Greater public recognition should be given to philanthropy and tax breaks and a simplification of rules on Gift Aid for example would be welcomed.
1 September 2016
What volunteers want
Evidence submitted by Wally Harbert

“You cannot get the full benefit of heart and head and active will unless you give (volunteers) responsibility, freedom of action and the opportunity of forming and striving to realise their own ideal”.
Octavia Hill 1838 -1912.

1. I trained in psychiatric social work and have served as an employee, trustee and volunteer for several national and local charities. As a director of social services for 20 years I forged partnerships with many voluntary bodies. I helped to organise seminars across the country for volunteers and managers as part of the European Year of Older People (1993) and the United Nations Year of Volunteers (2001). I have written extensively about volunteering and drafted publications on the subject for the Home Office and the National Health Executive.

2. The comments below respond to the call for evidence on to the role and purpose of charities in civil society.

Volunteering

3. When working for Help the Aged, in the 1990’s I learned that retirees who, in their working lives, had carried major responsibilities, were disappointed by the scarcity of challenging volunteering experiences. Some volunteer managers lack the skills needed to supervise volunteers who have more expertise and life experience than themselves. Staff to volunteer ratios vary widely - in one organisation it might be 1:20 and in another, undertaking similar work, 1:500. I advised potential high-flying volunteers that managers with large spans of control were most likely to offer them opportunities to carve-out a challenging and satisfying niche for themselves.

4. It was also clear that people in disadvantaged neighbourhoods were reluctant to volunteer under the control of “outsiders”; consequently, much social capital in areas of high social need was under-used.

5. Overwhelmingly, authoritative literature on volunteering is written from the perspective of philanthropic charities and assumes that volunteers are controlled by staff. Observers have commented on what they claim to be an absence of volunteers in disadvantaged areas. But more than a million self-managed volunteer groups, many in disadvantaged areas, have turned their backs on philanthropic volunteering. In a commercial enterprise, this would lead to questions about the quality of management but it is barely remarked upon by sector leaders or by national studies. (For information on the number of self-managed groups see Rochester, Colin. Re-discovering Voluntary Action. Palgrave Macmillan. 2013)
6. The term “volunteer manager”, carries unfortunate undertones for some. The work of millions of informal volunteers is largely unreported and unsung but it persists because it is a way of enjoying worthwhile experiences such as;

- Having opportunities to relate directly to people in need, utilising inter-personal skills learnt over a lifetime;
- Accepting responsibility for overcoming challenges;
- Being guided, not directed;
- Being viewed as an equal by associates.

7. Small, locally controlled, volunteer-led, self-help groups with flat organisational structures, consistently offer more freedom of expression, bigger challenges and greater opportunities for personal fulfilment to volunteers than philanthropic charities but they lack a support network providing assistance and advice.

8. The failure of some organisations to attract volunteers with supervisory skills seriously limits their expansion. The more a charity attracts and nurtures high flyers, the more it is able to meet the needs of hard-to-reach volunteers. An over-managed volunteer workforce is costly and unattractive to volunteers seeking challenges. Whatever policy is decided upon, unless volunteer managers are empowered they cannot empower their volunteers to fulfil their potential.

9. Volunteering must be redefined to meet twenty-first century challenges, recognising that non-traditional models of control may attract people who now feel excluded. Like Octavia Hill, we must know the kind of volunteers we want and learn how to respond to their needs.

10. **Recommendations**

The Committee should urge:

a. charity leaders to consider how small, unstaffed voluntary groups can be supported;
b. charity leaders and relevant academic institutions to jointly review the training and professional development needs of volunteer managers;
c. the government to establish a number of projects in disadvantaged areas to demonstrate the value of volunteer-led services.
d. the government to invest in training programmes for community workers who will empower local groups, particularly those in areas of high social need.

**Building Social Cohesion**

11. While there is some enthusiasm about welcoming refugees, history tells us they will find their way into communities that are already poor, stressed and divided, adding to existing tensions. It is essential that community groups and voluntary organisations reach-out beyond their comfort zones to engage with others. Only by better understanding the needs and wishes of our neighbours can we develop safer and more cohesive communities. The first step is to reduce barriers between different cultural and religious groups. This can only be done from within each community at the pace which it alone can dictate.
12. The solution to community tensions lies in the direct empowerment of residents. Peer pressure can be more effective than the work of formal organisations in countering anti-social behaviour, hate crime, radicalisation and even FGM. Face-to-face contact by local citizens with shared values can ease tensions, develop solidarity between age groups and between people from different cultures, it can fashion a more forgiving and less brutal social environment. One such project is described in the appendix.

13. This work may be badged *community action or the Big Society* and can be claimed as their own by all mainstream political parties. I prefer to call it *community volunteering* to distinguish it from volunteering controlled by philanthropic organisations.

14. Tax reliefs to charities give them responsibilities beyond those of their articles of association. They have a duty to pursue policies that strengthen civil society and reinforce social cohesion. Faith groups have a particular responsibility to ensure their activities promote inclusion and cohesion.

15. A code of practice on social cohesion is required for charities to ensure;

   · their services positively engage with the needs of minorities and hard-to-reach service users;
   · their recruitment practices for staff and volunteer attract recruits from minority populations;
   · their service users and representatives of relevant minority groups are regularly consulted so that policies and practice remain pertinent;
   · the organisation has a dialogue and a shared programme with other social groups with similar objectives;
   · policies are reviewed at least annually by each charity and the findings published.

16. There is little or no incentive for charities to recruit “hard to reach” volunteers or to ensure the ethnic diversity of their volunteering workforce. This should be addressed by funders.

17. **Recommendations**

The Committee should urge:

   e. charity leaders to agree a policy statement on social cohesion, a statement that can be endorsed by the government;
   f. funders, including the government, to reward charities that demonstrate a commitment to ethnic diversity in their volunteer workforce.

**Appendix**

*Community volunteers regenerating and protecting communities from within*
18. The body of a pensioner, who died in his Council flat, was not found for over three years. An official report recommended action to alleviate social isolation among older people. You were appointed to tackle the problem, accountable to a social worker trained and experienced in community work. The neighbourhood was characterised by:

· much poverty, high unemployment and low self-esteem;
· feelings of hopelessness and powerlessness with low expectations;
· much anti-social behaviour and petty crime;
· tension between the local authority and tenants, 90% of whom owed rent;
· much ill-health including mental ill-health; low life expectancy;
· huge religious, cultural and racial diversity;
· significant loneliness among elderly and disabled people;
· much neighbourhood but little formal volunteering.

19. You help older residents form an association to improve social conditions and to engage with service providers. They elect a chairman and create an advisory team representative of local services. A programme of work is decided.

20. Recognising that poor reading ability can lead to low attainment in other subjects, also to bad behaviour and lower job prospects, the group places volunteers in schools to help slow readers. Later, they assist with other labour-intensive lessons including cookery, gardening and sports. Bus trips to shops and parks are arranged for isolated disabled people - with police cadets pushing wheelchairs. This leads to the creation of a lunch club, services for patients leaving hospital and a visiting service for socially isolated people.

21. Until now, your volunteers have rubbed shoulders in the supermarket. They now have shared experiences. Meetings encourage bonding which booms when, with EU funding, an exchange takes place with volunteers in Madrid.

22. Staff in some services are uncomfortable discussing policies with residents, preferring the traditional approach of bureaucrats talking to one another. They repeatedly behave as though you are in charge and that residents are an abstract “they”. You sometimes need to stop yourself taking control and you ensure you are accompanied by at least one volunteer to meetings with other organisations. A local statutory organisation refuses to allow the group to handle money from its small grant and flatly declines to discuss matters with the chairman.

23. The volunteers are drawn from different races and faiths. You try to ensure that no single group dominates meetings and that everyone has a voice. The dynamic that unifies your volunteers stems from their shared neighbourhood. They tend to value one another for who they are more than for what they do and this promotes genuine warmth across age groups, races and cultures.

24. Volunteering is multi-dimensional, process being as important as outcome. A teacher thanks a volunteer for improving a boy’s reading but the real triumph is that a wayward child from a deprived background has built a trusting one-to-one relationship with an adult.
25. Your volunteers have no pretensions; their volunteering is a leisure pursuit. They are mostly retired and their employment has been mainly in low-paid, insecure and repetitive jobs; their lives have been lived at the bidding of others, in, or at the margins of, poverty. Illness, family break-up and/or bereavement have sometimes led to depression and a sense of worthlessness.

26. Volunteering offers rare opportunities for creativity, enabling participants to give as well as receive. Residents seek empowerment, not dependency; they do not want to be the object of charity. With a flat organisational structure, there is no gender discrimination in the distribution of power. This makes volunteering more attractive for women from some cultural backgrounds.

27. Enthusiasm is infectious; self-confidence soars. How else could volunteers have fun in congenial company while doing something hugely worthwhile at no financial cost to themselves? Daytime television, day centres and bingo cannot compete. There is no better, or cheaper, preventive mental health service. The project’s aim of reducing loneliness is amply achieved.

28. You note that people with power all live outside the area. Perversely, those with most power live at the greatest distance. The urge to control the poor is greater than the urge to understand them. One of your key tasks is to help the powerless and the powerful to communicate. Working alongside them, changes your understanding. You feel privileged to know such remarkable and resilient people.

22 August 2016.
Following an Article that appeared in the Third Sector earlier this month, I was concerned about some evidence which was reported given by Marged Griffiths, Chief Executive of the Bridgend based children’s charity YBont. It seemed to suggest that apart from the specific financial boost her charity experienced following the collapse of Kids Company, other small charities might have benefited. She went on to explain that former donors to large national charities were approaching her organisation to donate because they had more confidence in their donation reaching front line services.

I have worked with charities extensively over the last 25 years (please see my website for my credentials in this area) and have seen no real evidence of this “ripple effect” in the last 18 months with the c60 charity clients I have acted for in that time. However, rather than rely on such anecdotal evidence I circulated a mailing list of East Midlands charities, none of which I am connected to and all with an income of less than £1m to see if there was any examples to substantiate Ms Griffiths’ experience.

I reproduce the email below:

“Dear Trustees

The article below appeared in Third Sector last week, an extract of which is reproduced below:

“Some small charities might have benefited from the collapse of Kids Company, the Lords Select Committee on Charities heard yesterday. Marged Griffiths, chief executive of the Bridgend-based children’s charity Y Bont, told peers her charity had experienced a financial boost because people lost faith in larger charities when Kid’s Company closed its doors in August last year.

She was speaking as a witness during the committee’s evidence session on the challenges of charity governance, as part of its year-long investigation into charity sustainability and governance. Griffiths told the committee it had become more difficult to recruit trustees to small charities because people were anxious about the responsibility.

But she said there had also been a beneficial "ripple effect", with former donors to large national charities approaching her organisation to donate because they said they had more confidence they would be able to see most of their donation reaching front-line services. “

Now that is somewhat different to my anecdotal experience and if I am right I believe parliament is getting the wrong message which I would like to correct so I would be grateful if you would reply to the following 4 questions
Elliot Harris — Written evidence (CHA0185)

1) Has your charity experienced a financial boost since the collapse of Kid’s Company in 2015? YES/NO

2) Have you been approached by a former donor to a large charity to donate? YES/NO

3) If so, did they give any other reason than more confidence in the donation reaching front line service? YES/NO/N/A

4) If so, what was that other reason

Your help and co-operation would be most appreciated.

Yours faithfully

Elliot Harris

www.strategyandgovernance.co.uk

Every single response to questions 1 & 2 was NO and thus questions 3 and 4 were not answered. Now I appreciate that this is not the most scientific sampling methodology but I wanted to make the committee aware that reliance on Ms Griffiths’ testimony as being universal would not be right. You only need to look at the increasing amount of small charity failures to know that small charities continue to suffer, particularly against the heavy hitters like Children in Need, Comic Relief, Help the Heroes and the Poppy Appeal. In addition there is a great fear that those charities who have relied on the EC for funding will be hit hard by Brexit with no guarantees that the government will replace that source of funding.

I would be grateful if you would ask the committee to consider this email as part of their evidence gathering.

*Please note this is not a scientific piece of evidence but a mixture of verbal anecdotal evidence and a response to a simple email survey.*

Yours faithfully

Elliot Harris

18 November 2016

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Health Poverty Action – Written evidence (CHA0037)

Health Poverty Action is an international NGO working to strengthen the right to health globally. We work with people in 15 countries to improve access to health services, and campaign on the global structural causes of poverty and poor health. We are medium sized charity with an annual expenditure of approximately £15 million. We welcome the Committee’s enquiry and the opportunity to submit evidence.

Summary

1. Charities tackle the most pressing social problems, often working with the most marginalised communities, both filling gaps in service provision and holding governments to account. The current climate poses a number of significant challenges for charities’ ability to do this effectively and sustainably. Amongst these is the introduction of new regulations, rushed in their development and with questionable ability to address the stated problem. Whilst the need for the highest standards of best practice, protection of the vulnerable and increased public trust in the sector is not in question, it remains to be seen how current proposals will do this adequately. Instead we fear they may impede the ability of charities to fulfil their social functions, with adverse impacts on the lives of those they support.

2. Health Poverty Action is both concerned about, and affected by, a range of issues resulting from the increasingly challenging climate for charities. This includes increasing restrictions on charity campaigning by the Charity Commission and Cabinet Office. We consider these worrying impediments to civil society space and the ability to hold governments to account. In addition, the UK’s decision to leave the European Union poses further uncertainty. Despite the breadth of our concerns, in our evidence we respond only to Question 2 and have limited our response to the impact on fundraising. This is because we anticipate the Committee will receive a large amount of evidence relating to these wider impacts, and we have identified fundraising challenges that are unique to organisations such as ours - medium sized charities with predominantly institutional income - as a particular area of pressing concern for the sustainability of the sector.

Recommendations

- Given the potential impact of the Fundraising Preference Service, review after 2 years of implementation is not sufficient. Impacts must be monitored closely on an ongoing basis against its stated aim, with the potential to reconsider its implementation if necessary.

- Banding of the fundraising levy must be proportionate to expenditure on fundraising, and not penalise small and medium sized charities.

Whilst not explicitly recommendations for government, there is also a need for following:
Publication of guidance for the charity sector on managing relationships with potentially vulnerable donors

Strengthened representation of and consultation with medium sized charities.

What opportunities do charities have in the current environment?

3. Whilst reasons for optimism are currently difficult to identify, one possibility is that through necessity, the changes in the sector - which include the shrinking of more traditional avenues for public engagement such as telephone fundraising - will force charities to innovate and find new ways to engage with the public about our work.

4. Given the ability of the media to influence policy in the sector - evidenced for example by the introduction of fundraising reforms following a spate of hostile media coverage – there may be scope to affect positive change within the sector by influencing the media and the public narrative about charities and highlighting the successes and achievements of the sector, achieved in part due to money donated by the public.

What are the main pressures faced by charities currently, and what impact have these had?

5. There is concern that the transfer of the Office for Civil Society to DCMS has the potential to weaken its impact. The lack of clarity around new roles and responsibilities within DCMS mean it could be more difficult to collaborate and influence any decisions made which will have an impact on the charity sector.

6. Whilst the most recent proposals for the Fundraising Preference Service (FPS) appear to represent a reduced level of threat than originally feared, its introduction still poses significant challenges for charities. We have serious concerns about both the process of its introduction, and its impact. The recommendations to establish the FPS made by NCVO in the Regulating Fundraising Review were accepted by government with no consultation with the sector, and the announcement of its introduction was made just one week after the Institute of Fundraising sent out a survey to its paying members, seeking their views on the topic. It remains unclear how the FPS will provide an adequate response to the concerns to which it purports to address. For example, in its report on FPS, the Fundraising Standards Board (FRSB) cited 382 complaints received in the three weeks following a June 2015 fundraising scandal as the basis for enforcing telephone preference compliance in charity marketing. Yet only 4% (approximately 15) of these complaints were about fundraising phone calls. The report also states that 70% of complaints received in the period related to direct mail contact. Given this, reasons for the decision to make changes to the code of practice around telephone fundraising are unclear. Despite the apparent disconnect between the problem and solution, the impacts have been stark; some charities have lost the ability to telephone

up to 74% of their donor base. The most recent recommendations on how the FPS will work in practice (published in August 2016) have provided no new guidance on the issue of vulnerable people – something it was explicitly supposed to address in the wake of several scandals around charities’ contact with vulnerable donors last year.

7. All charities face serious pressures from the planned introduction of the General Data Protection Regulation (GDPR) in 2018. GDPR demands an opt-in system of fundraising allowing fundraisers to send direct marketing materials only to people that have explicitly consented to receive such communications, with severe penalties for non-compliance. Despite this being an EC regulation, the Information Commissioner’s Office has recommended that UK organisations should adopt the same consent standards. As charities have typically not used the opt-in method of gathering consent to contact donors to date (as it was not previously a legal requirement), this not only restricts access to potential new donors but also means that some charities will lose the ability to contact huge swathes of their existing donor base (due to them not having explicitly opted-in in the first place) and consequently, a huge proportion of their future income. As many as 82% of donations to UK charities are made in response to a direct fundraising ask of some kind, and so the impact on income is likely to be significant.

8. The restriction of potential future income poses a threat for ability of charities to function, and more significantly maintain their support for those – often the most marginalised in society – for whom they provide a voice. Whilst we fully accept the need to protect vulnerable members of the public from abuse, we question whether making it more difficult for people to support (or continue to support) causes they care about is in the public interest, in particular given the restriction the regulation places on charities’ ability to contact their existing supporters. Considering the apparent lack of consultation and consideration given to these proposals, weighted against their potential impacts on charities and the communities they serve, it is difficult not to have serious concerns about their implementation.

Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

9. Charities that are funded mainly by statutory grants face particular challenges. For example, Health Poverty Action has an expenditure of around £15m, meaning we are considered a medium sized charity. Yet more than 90 per cent of our income is institutional, and therefore restricted to particular activities. The small remainder comes from fundraising, with a third of this from individual donors. This means that we rely on this 10 per cent to provide critical funds for salaries, office and administration costs that enable us to function. The increased negative public perception of ‘overheads’, surge in

215 Ethicall, August 2015, Shaking the Sacred Ground Assessing the Impact of New Rules on Telephone Fundraising
negative media coverage, and lack of positive narrative to aid understanding proves a serious threat to our sustainability.

10. Charities who receive any funding from the EU face serious pressure on future commitments and contracts, given their future ineligibility to receive funding. The lack of clarity around the timing of the activation of Article 50 and the long-term implications of the loss of funds are only part of the problem; current uncertainty means research funding applications from the UK are already being discouraged even though it might be years before we are actually ineligible. This makes long-term planning and strategy difficult.

11. Many of the changes to the fundraising regulations will impact medium sized charities like Health Poverty Action particularly. We are not small enough to qualify for some of the possible exemptions under discussion, nor big enough to have the budgets, resource and capacity to take the significant risks required to diversify our income and absorb the changes without a detrimental impact on our work and the lives of those we work with. The proposed levy system in which charities will pay to finance the fundraising regulator is not equitable and will also penalise charities who fall into the middle bands of fundraising spend, - we will be required to pay 0.16% of total fundraising spend as opposed to larger charities who will pay 0.4%.\(^{217}\)

12. Medium sized charities face a particular lack of representation. The 50 largest charities have been consulted directly, and representatives have spoken at various All Party Groups. The Small Charities Coalition has also been involved in various discussions about the future of fundraising. Thousands of charities however do not fall into either of these categories and our interests are not always considered in discussions that might have a disproportionate impact on our size of charity.

31 August 2016

\(^{217}\) Civil Society, 24 August 2016, Fundraising Regulator changes levy system to make larger charities pay more. http://www.civilsociety.co.uk/fundraising/news/content/22255/fundraising_regulator_makes_changes_to_tiered_levy_system_to Ensure larger charities pay more
1. I have read with interest the Committee’s Call for Evidence and, in response, submit the following.

2. I have undertaken three reviews for the Government some covering the voluntary sector as a whole (i.e. not confined purely to charities). I have drawn on the evidence I received during these Reviews in making this submission. The Reviews are:

   i) ‘Unshackling Good Neighbours’ published May 2011 which looked at the barriers that deterred individuals from giving time and/or money and which stopped smaller charities/voluntary groups growing.


3. Overall the work I undertook during these Reviews, which included workshops and visits in different parts of the United Kingdom as well as extensive evidence received, left me with a great admiration for the sector. The sector undoubtedly contributes much to the richness and diversity of our civil society and plays an important role in fostering social cohesion. In particular to see the work of smaller charities, usually unheralded and unsung, and with few capital resources, tackling some of the most intractable socio/economic problems of our society was a humbling experience.

4. Nevertheless, I agree with the underlying thrust of the Call for Evidence that the charity sector stands now at a cross roads. I would respectfully suggest that it would be of great benefit to the sector if the Committee could reach some considered conclusions on the following broad strategic challenges which touch on many of the specific questions raised in the Call for Evidence:

   Is charitable status a privilege or a right?

5. Charities are just one of many forms for voluntary endeavour – others include social enterprises, CIC’s, community benefit societies and mutuals. But charities have a preeminent status as a result of, inter alia, their charity number and their tax status. Is the public entitled to ask that, in return for the grant of these not inconsiderable benefits, charities should perform to certain basic standards? Anecdotal evidence suggests, while
many charities do excellent work, too many charities do not do anything bad, but don’t do anything much.

6. During one of my reviews I considered the possibility of recommending the equivalent of a charity ‘MOT’ to provide a degree of public reassurance on this issue. The twin challenges are (1) that with 160,000 + charities, even on a 25 year cycle, 125 charities would have to be reviewed every week and (2) that charitable status is a matter of law not Charity Commission decision. So I did not follow through on this idea.

7. However my concern remains that without some positive action the past high reputation of the charity sector may suffer from erosion – a trend accentuated by the recent steady drip of negative stories.

8. But this is not just a challenge for the regulator. In parallel the sector itself should be encouraged to find ways to spread best practice as well as identify and address general or particular challenges. The sector needs to understand that its reputation with the general public is as good as the weakest link in its chain.

Is a volunteer element an essential part of a charity?

9. There are now a number of charities which have very little or no volunteer input (other than the Trustees).

10. I fear that without some level of voluntary contribution something of what makes a charity distinctive is lost. A predominantly professionally staffed charity can, inter alia, result in the emergence of two distinct ‘work forces’ with volunteers feeling they are undervalued, to charities ‘chasing the money’ at the expense of their broader public benefit objectives and to the creation of a national structure which can be insufficiently flexible to respond to local conditions.

11. This in turn raises the question as to whether there is a maximum size that a ‘charity’ (in this narrower sense) can achieve. For example – the second largest charity is the British Council (annual income £973 million). No-one would argue that the British Council does not do very valuable work and is an essential part of Britain’s ‘soft power’ armoury but whether it is a ‘charity’ is perhaps more open to debate.

12. Moreover the existence of very large charities raises at least two other difficult issues which has caused some reputational damage to the sector. First the appropriate level of remuneration for the executives of charities with turnovers running into hundreds of millions of pounds. Second the extent to which local branches of big national charities can continue to reflect ‘local’ conditions or find themselves bound by national policies which may or may not fit them appropriately.
Future structure and funding of the Charity Commission

13. Is the Charity Commission a regulator or a friend? In my view it has to be a regulator; public trust and confidence in the sector depends on there being an effective regulator. Such a role is not compatible with acting as a ‘cheer leader’ for the sector.

14. But it might/should be possible to devise a structure which has elements of ‘friend’ within it (e.g. a well-staffed help desk).

15. The time is now right to take a fresh look at how the Commission is funded. In my view some form of hybrid funding is both appropriate and inevitable. I believe that the general public would accept that it is not unreasonable that the charity sector which receives £billions in tax relief should be asked to put some very small percentage back into helping maintain an effective regulatory structure. It will of course require an undertaking from the Treasury that if the sector does provide some funding there will not be an immediate commensurate reduction in the Treasury grant. And this in turn raises the constitutional issue of governments being unable to bind their successors.

16. But hybridity in funding should not mean hybridity in making appointments to the Commission. The sector cannot afford allegations of ‘regulatory capture’. Self regulation, for better or worse, no longer commands public confidence.

The role of Commissioners of services in assisting the growth of charities

17. Commissioners are by their very nature ‘risk adverse’. So the default option is to award contracts to large organisations with smaller local charities as subcontractors – acting as ‘bid candy’. Too often this means that the large organisations take the vanilla flavoured cases and leave the harder cases to the smaller local organisation.

18. It would be useful to set out standard operating procedures which Commissioners should either comply with or explain why they are not complying. These should include (in relation to size of contract), number of parties invited to tender, cost of completing the tender, cost of monitoring compliance etc. During my work on ‘Unshackling Good Neighbours’ I talked to a number of charities, both grant giving and grant receiving, and as a result was able to make some specific recommendations on these points. Consideration could also be given to establishing a policy that below a certain level a grant is probably a more effective use of public money than a tendered contract.

Conclusion

19. The Committee has been established at a time when there is a real opportunity (and need) to rethink how charities and charitable status fit into modern society. I wish it well in its task.
30 August 2016
In November 2015 I conducted research into public attitudes towards charity regulation, funded by the Charity Finance Group. I believe that the findings of this research contribute to the aims of the House of Lord Select Committee on Charities’ call for evidence in two areas. Firstly, it contributes to Question 6, on how charities can ensure accountability to a range of stakeholders. Secondly, it contributes to Question 9 pt.2, on what the role of the Charity Commission should be.

The research used a qualitative focus group method. We ran 4 focus groups in Central London which explore public awareness of existing charity regulation, attitudes towards what regulation should look like and perspectives on how charity regulation should be funded and how this would affect decisions to donate. The focus groups were recruited by a professional market research company to ensure that the focus groups were representative of the English and Wales population as a whole.

The key findings from my research were as follows:

1. The public on the whole know very little about how charities are regulated. When discussing public attitudes to charity regulation, what it looks like and how it is funded it is important to remember that people do not on the whole know a great deal about how charities are regulated.

2. Despite a lack of knowledge about what currently happens, the public are clear that charities should be regulated. While the public do not know much about current charity regulation, they see it as being important in supporting charities and those who support and benefit from them.

3. People have high expectations of charities and want regulation to deal with areas where they fear charities are falling short: fundraising ethics, efficiency, staff costs and ‘bogus’ charities. People on the whole trust charities, and have high expectations of them. When they feel that these expectations are not being met, they would like to see more done to regulate charitable activities. Yet people are pragmatic and realistic about what regulation can achieve.

4. Opinion is divided on who should pay for the regulator, although the most widely held view is that both charities and the government should contribute. While there is widespread support for some charity payment to help fund the charity regulator, this is by no means a universal view and the amount that people see charities contributing involves relatively small amounts of money.

5. There is a widespread view that smaller charities should contribute less to regulator funding than larger charities. The public are clear that the burden of paying for the charity regulator should not fall disproportionately on the smallest charities in a way which may discourage them from registering as charities. A tiered or graded system was proposed, like taxes, which would mean the largest charities made the largest contributions.
6. There is a fear that having a wholly charity-funded regulator might threaten its independence. How the regulator is funded and how it operates influences how it is perceived by the public. A wholly charity-funded regulator, people feel, would risk being seen as self-regulation – regardless of its status or who staffs it – and as such may lack legitimacy.

7. People do not feel that charities having to contribute to their own regulation would negatively affect charitable giving. They can even envisage it leading them to donate more. Charities contributing towards the cost of the regulator is unlikely to have a negative impact on the amount donated and that it may even, if the reason for the payment and the impact it has on how charities are regulated is seen by donors, increase it. However, this finding should be treated with caution given the gap between what people say they will do and what they actually do.


I would be happy to discuss this research further or to help in any other way I can.

5 September 2016
Homeless Link — Written evidence (CHA0012)

House of Lords Select Committee on Charities - Call for Evidence

1) Homeless Link, incorporating Sitra, is the national membership charity for organisations working directly with people who become homeless in England. Sitra is the membership body for organisations for the supported housing, health and social care sectors. With over 850 members, we work to make services better and campaign on a national level for policy change. Together we believe we can end homelessness and ensure that everyone has a place to call home and the support they need to keep it.

2) Homeless Link is very happy to respond to the Select Committee on Charities Call for Evidence. In this response we draw heavily on our Annual Review: Support for single homeless people in England, in which each year we complete a survey of levels of need and provision in the homelessness sector. This also gives us an opportunity to identify any developing trends.

The last published version of this review published in 2015, was based on data provided by nearly 500 agencies and is referenced throughout this document.

3) We have used the term “charities” within most of this document as a general term to describe registered and non-registered accommodation providers of homelessness services. Some of these provide hostels and others supported housing projects. We have also included some specific information on the particular challenges faced by homelessness charities providing day centre services rather than residential ones. All of the information contained only covers England as we do not work in the other parts of the United Kingdom.

4) We realise that this call for evidence is a wider-ranging one. We have not tried to address all the areas, but instead have focused upon where we feel we can be of most value namely:

1. The pressures homelessness charities face
2. How homelessness charities have responded to these pressures
3. The relationship between central Government and homelessness charities

Pressure One - Increases in Homelessness

5) By all official measures homelessness has been on the rise in recent years. For example, the statutory homelessness data which shows the number of people whom councils have a legal obligation to help has increased in recent years.
6) These figures are generally regarded as only representing the tip of the iceberg as they tend to not include most single people and couples without children who are homeless.

7) The rough sleeping snapshot statistics for England also show year-on-year increases. These figures are confirmed by the more rigorous all year round CHAIN data on rough sleeping in London [http://www.mungos.org/chain](http://www.mungos.org/chain).

### Statutory Homelessness in England

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<td>2012</td>
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<td>0%</td>
</tr>
<tr>
<td>2015</td>
<td>56,500</td>
<td>6%</td>
</tr>
</tbody>
</table>

8) People who are “hidden homeless” tend to not be picked-up by the statutory homelessness or the rough sleeping figures. Research suggests that the number has increased in recent years.

### Rough Sleeping Figures

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Numbers rough sleeping (single night)</th>
<th>% change on previous year</th>
<th>Financial year</th>
<th>Numbers rough sleeping in London (whole year)</th>
<th>% change on previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2,181</td>
<td></td>
<td>2011/12</td>
<td>5,678</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>2,309</td>
<td>6%</td>
<td>2012/13</td>
<td>6,437</td>
<td>13%</td>
</tr>
<tr>
<td>2013</td>
<td>2,414</td>
<td>5%</td>
<td>2013/14</td>
<td>6,508</td>
<td>1%</td>
</tr>
<tr>
<td>2014</td>
<td>2,744</td>
<td>14%</td>
<td>2014/15</td>
<td>7,581</td>
<td>16%</td>
</tr>
<tr>
<td>2015</td>
<td>3,569</td>
<td>30%</td>
<td>2015/16</td>
<td>8,096</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: DCLG

Source: CHAIN

8) People who are “hidden homeless” tend to not be picked-up by the statutory homelessness or the rough sleeping figures. Research suggests that the number has increased in recent years.

### Number of concealed households and overcrowding in England

<table>
<thead>
<tr>
<th>Concealed households</th>
<th>Overcrowding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period</td>
<td>Single people</td>
</tr>
</tbody>
</table>

491
Pressure Two - Reductions in Resources

9) Despite increasing demand, there has been a small decrease in the number of residential homelessness projects and bedspaces.

<table>
<thead>
<tr>
<th></th>
<th>Bed spaces</th>
<th></th>
<th></th>
<th>Projects</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of bed spaces</td>
<td>% change on previous year</td>
<td>Number of projects</td>
<td>% change on previous year</td>
<td></td>
</tr>
<tr>
<td>Nov-11</td>
<td>41,449</td>
<td></td>
<td></td>
<td>1,362</td>
<td></td>
</tr>
<tr>
<td>Nov-12</td>
<td>39,638</td>
<td>-4%</td>
<td></td>
<td>1,304</td>
<td>-4%</td>
</tr>
<tr>
<td>Nov-13</td>
<td>38,534</td>
<td>-3%</td>
<td></td>
<td>1,271</td>
<td>-3%</td>
</tr>
<tr>
<td>Nov-14</td>
<td>36,540</td>
<td>-5%</td>
<td></td>
<td>1,253</td>
<td>-1%</td>
</tr>
<tr>
<td>Nov-15</td>
<td>35,727</td>
<td>-2%</td>
<td></td>
<td>1,185</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Source: Homeless Link

10) Most residential homelessness serviced provided by charities are commissioned by local councils. As councils have experienced reductions in funding from central Government, homelessness services have seen their resources cuts. For example, in 2013 76% of homelessness accommodation projects were primarily funded by Supporting People (SP). By 2014 this had reduced to 58%. This reduction has meant agencies are increasingly reliant on Housing Benefit to function. However, this income is itself at risk as shown later in this submission.

11) Many day centres are not eligible for SP funding. Compared to accommodation charities they receive funding from a wider range of sources such as fundraising, health and trusts making a contribution. The picture is more varied than residential charities when it comes to increases and decreases with more seeing increases than decreases in 2013-14.

Pressure Three - Changes to the Welfare Benefits System

12) Real term Local Housing Allowance (LHA) reductions since 2011 have made it harder to find move-on accommodation for people ready to leave homelessness accommodation.
provided by homelessness charities. This is meaning more clients are staying for longer periods of time. This in turn means fewer available spaces for those who need to access to this support.

### Proportion of clients ready to move on from accommodation projects, but unable to

<table>
<thead>
<tr>
<th></th>
<th>Ready to move on but not able to</th>
<th>Waiting for up to 3 months</th>
<th>Waiting more than 3 months, less than 6 months</th>
<th>Waiting 6 months or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waiting</td>
<td>20</td>
<td>15</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>Waiting</td>
<td>15</td>
<td>15</td>
<td>42%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source: Homeless Link Annual Review: Support for Single Homeless People in England 2014 (due to data collection changes these figures are only available for one year

13) This issue is particularly exacerbated for under-35s who generally are only entitled to the Shared Accommodation Rate (SAR) of Housing Benefit. Half of people in homeless accommodation projects are under 25 meaning the impact is disproportionate. Theoretically, 30% of shared properties in a Broad Market Rental Area are supposed to be affordable on the SAR. However Homeless Link research in London found that the figure is nearer 5%.

Social Housing Rent Caps

14) The plans announced in the 2015 Autumn Statement by the Government to cap social housing at LHA rates has created a number of problems in terms of existing and future supported housing provision. This is the case not just within homelessness but across a number of vulnerable groups supported by charities including:

- Ex-offenders
- People with mental Health issue
- Substance misusers
- People with Learning Disabilities
- Victims of Learning Disabilities
- Ex-Armed forces

15) Although the proposal has been suspended until April 2017 impacts are already being felt amongst support housing charities with:

- Supported housing programmes being abandoned in favour of general needs
- Supported housing schemes being put on hold
- Social investment being withdrawn

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218 [http://www.homeless.org.uk/sites/default/files/site-attachments/No%20Where%20To%20Move_Final.pdf](http://www.homeless.org.uk/sites/default/files/site-attachments/No%20Where%20To%20Move_Final.pdf)
• Supported housing charities being unable to renew leases on existing properties until the uncertainties are resolved.

Homeless Link estimate that the loss of income to supported housing charities if this change goes ahead will be around £800 million per year. Over 90% of residential services provided by homelessness charities will become financially unviable.

16) Day centres have told Homeless Link that they are seeing increases in poverty and destitution as a result of Social Security changes. Some of the major areas of impact have been around sanctions, Work Capability Assessment decisions, Council Tax arrears and migrant benefit changes

Pressure Four - The support needs of people using services provided by homelessness charities.
14) People who use services provided by homelessness charities often have other support needs.

• 8% have been in care
• 8% have a learning disability
• 13% have physical health problems
• 19% have recently slept rough
• 22% have a history of offending
• 23% have alcohol problems
• 30% have drug problems
• 32% have mental health problems,


17) Over a quarter of users of user of residential homelessness charities have a combination of two or more of these issues.

18) Homelessness agencies have identified a number of gaps in external provision which make working with these clients with complex needs particularly difficult. These include limited access to:

• Mental healthcare
• Substance misuse services
• Move-on accommodation for those with multiple support needs
• Lack of specialist supported housing
• Affordable access to the private rented sector.

19) Day centre charities also see people will the similar range of support needs with almost all seeing people with alcohol, drug and mental health issues. However, day centre charities are less likely to have targeted services for these specific groups.

How have homelessness charities responded to these pressures?
Response One – Reduction in Resources
20) Many homelessness charities have taken steps to address the reduction in resources they have faced. These include decreases in:

- Meaningful activity
- Keyworking
- Frontline staff
- Back-office capacity

21) Charities have worked hard to not reduce the number of clients they work with but, inevitably with fewer resources, a number have reduced the hours spent supporting the vulnerable people in their accommodation. This may impact on charities abilities to work with more vulnerable clients.

**Response Two - Innovative Approaches**

22) Despite the challenges they face, homelessness charities have tried to respond by transforming and improving the service they provide. For example, many have tried to increase the emphasis on support based around the needs of the individual. This personalised approach is used in 82% of homelessness charities; other innovative support approaches such as Personal Budgets have been adopted. These give users of homelessness charities greater input into financial decisions impacting on their lives.

23) Another form of innovation undertaken involves trying to proactively increase accommodation options. These include proactively engaging with private landlords, directly leasing properties and a “Housing First” approach where the emphasis is upon securing accommodation and then providing appropriate support afterwards.

24) Many day centre charities have tried to move away from a model where they primarily provide somewhere comfortable for homeless people to spend the daytime. The majority now provide Advice, Employment and Resettlement services. Often, engagement in these services, it is a precondition of accessing the day centre.

**The Relationship between Charities and National Government**

25) Central Government and homelessness charities have a long history of working together to reduce all forms of homelessness. In initiatives such as the Rough Sleepers Unit (1998) and No Second Night Out (2011 onwards) the Government has provided a strategic approach, policy leadership and resources, whilst charities had the delivery role.

26) Currently homelessness charities play a vital role in helping national Government deliver its social justice agenda. Front-line homelessness charities provide support to the most vulnerable people in society, keeping tens of thousands of people from sleeping rough every night.

27) Charities also work with Government at a more strategic level. In recent years Homeless Link has helped the Department of Work and Pensions develop legislation around Supported Housing and benefit conditionality. We also administered the £20 million Homelessness Transition Fund on behalf of DCLG. This programme allocated funding to organisations working to address rough sleeping and monitored outcomes.
28) Another crucial, historic role of some charities has been to try and influence Government in pursuit of their charitable aims. For example, lobbying by Homeless Link led to both a Conservative Government and a Labour Mayor endorsing the eradication of rough sleeping by 2012. There is a concern that that the Lobbying Act 2013 is part of a culture in which charities maybe afraid of expressing opinions which could be seen to be critical of Government.

Conclusion
29) Homelessness charities continue to be the only safety-net preventing tens of thousands of people ending-up on the streets and supporting those with the most complex and multiple needs to rebuild their lives. However, they are operating in an environment of unprecedented reductions in funding, alongside increased demands which makes their task increasingly harder. If it goes ahead, the proposed capping of Housing Benefit at LHA rates will mean homelessness charities will no longer be able to provide this safety-net. The subsequent economic and social impact on the country will be huge.

12 August 2016
The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

Charities were the precursor to public social services. In addition to other activities that are outside the scope of this document, they still have a vestigial purpose in this respect, to plug gaps in social services. Those gaps might have been left intentionally by the public sector because they are too expensive, too niche or too difficult, or unintentionally due to ignorance or misjudgement. As our population ages, demand for social services will grow inexorably whilst the means to pay for it will wither. The gaps will grow, perhaps until they are bigger than the non-gaps. There will be a public services crunch in the late 2020s, when we can no longer provide even essential public services. "Polyfilla" charities will be the only way to assuage public anger.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?

I can only speak for charities like Home-Start that are effectively extensions of public services. We are being crushed between falling revenue and burgeoning demand, both of which are ultimately caused by public spending cuts. On the demand side, Local Authorities are simply cutting services and dumping them on charities. On the revenue side, Local Authorities and Clinical Commissioning Groups are withdrawing charitable funding. This is a double blow to charities: grant income is lost directly, of course, but also indirectly by the enormously greater competition for funding from non-statutory sources. Fierce competition for funds is a triple whammy: it wastes time and resources at the benefactors who end up with less money to disburse; it wastes time for Trustee fundraisers; and it forces charities to employ professional bid-writers which unproductively wastes some of the funds they get.

Not only does the combination of falling revenue and burgeoning demand place an almost intolerable financial and operational strain on charities but it also makes it impossible to invest in skills and equipment, or to recruit suitably skilled staff and Trustees. In the long-run this is bound to adversely impact service quality and efficiency when we need the exact opposite.

Worse, public spending cuts create an inefficient distorted allocation of work. In a misguided attempt to improve efficiency and accountability, public sector health workers and social workers are targeted to maximise case closures. They have discovered that the easiest way to achieve their targets is to refer the most difficult cases to charities, since one difficult case can take as much time as five easy cases. The result is that highly-skilled professional health workers and social workers end up doing mostly trivial cases, whilst unpaid semi-skilled charity volunteers get complicated cases that are beyond their skills and capabilities.
All of the above is exacerbated by the ludicrously high number of charities, especially in the children’s sector. Most of them are fighting for the same funds. Lots of them have overlapping services. Many of them, not least Home-Start, have a federated model in which branches fight against each other for funds. It wastes an enormous amount of time and money for benefactors, fund-raisers and charity back offices.

Innovation

3. How do charities seek to innovate, particularly in the digital arena?

Charities use pretty much the same communications, social media and networking tools used by everyone else. These have unquestionably helped to reduce some costs, to improve communication between staff, volunteers and families, and to improve flexible working. This is often misinterpreted as innovation. It isn’t. It is just implementing common business systems, five-years in arrears.

The real innovation opportunity is for service recipients to use newly developed digital teaching aids, community aids, assessment aids and monitoring aids to help overcome their problem. This almost never happens. Normal charities cannot afford to build suitable tools. Disadvantaged families cannot afford to buy the equipment needed to use those tools. If valuable equipment is gifted or lent to families, it often gets sold or broken. In reality, nearly all of the prospective innovative digital work for charities is being done by stealthy IT developers that trick charitable benefactors into paying for their software development. As soon as the software development nears completion, the developers uncloak and try to sell their product, leaving their charitable sponsors with unusable software or nothing.

Governance and leadership

4. What skills are required to lead and manage a charity?

No comment. See Lesley Michaelis’ submission.

5. What role should trustees play in the performance and effectiveness of a charity?

No comment. See Lesley Michaelis’ submission.

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

No comment.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

No comment. See Lesley Michaelis’ submission.

Social investment
8. What is the potential of social investment and social impact bonds?

No comment. See Lesley Michaelis' submission.

The role of the Government

9. What should the role of Government be with the sector?

It is patently obvious that, for those activities they are capable of doing, well-trained supervised volunteers are enormously less expensive than professional social workers and health workers. It is equally obvious that we cannot afford the current level of public services as the population ages into the 2020s and 2030s. David Cameron acknowledged all this when he was promoting the Big Society. The question is how best to achieve it.

In my opinion, the Government should divide charitable activities into those that are effectively extensions of public services and those that are not. For those that are - I will refer to them as "Big Society charities" for want of a better term - the Government should formalise the relationship, implementing range of measures to ensure they get suitable work, that they work to an adequate standard and that they get adequate funding. This is in everyone's interests. Some measures I recommend are:

1. Define activities that we want Big Society charity volunteers to do. To begin, these might be fairly trivial: giving people lifts to the doctor, shopping for the elderly, visiting isolated people, showing children how to brush their teeth. As the concept develops it can be extended to more complex advisory, prophylactic and issues, such as helping teenage mothers through pregnancy, teaching dyslexic children to read, advising mothers of autistic children on how to cope, and so on.

2. Define the training, processes, engagement, closure, reporting and monitoring needed for Big Society charities to be successful.

3. License a Big Society charity to do each aspect of this work for each city and/or region. One objective is to make sure that the charity has the right people and governance to do a good job. Another is to ensure that no more than one Big Society charity is doing the same work in any one city or region. The easiest way to achieve this might be to give preference to big national charities like Barnados, Home-Start, Age Concern, etc. Smaller charities can fill the gaps in the gaps.

4. Vet and annually assess the Trustees, staff and volunteers for all licensees.

5. Ensure that Big Society charities receive adequate funding and facilities. Obviously this would be best done by funding them directly but if this is not possible, it might need mandatory disbursements from non-statutory benefactors such as the Big Lottery.

6. Instruct public sector Social Services and Health Services departments that they must refer those cases for which a local Big Society charity has been licensed.
7. Implement a quality monitoring and continual service improvement plan for Big Society charities. If they fail to deliver adequate service levels or fail to improve their processes and efficiency, they run the risk of their license being revoked.

It is equally obvious that new software "Apps" offer the best chance of realising the massive efficiency and effectiveness improvements to charitable services and public sector services that we need. One problem is that IT developers are incredibly smart and sneaky. Rather like professional sportsmen, they tend to have short and unpredictable careers during which they need to make enough money to fund the rest of their lives. Their favoured route to riches is to get someone else to pay for a software development, all or parts of which they can go on to sell. It is incredibly difficult to prevent. And, even if everyone is well-intentioned, software development is incredibly difficult, inefficient and failure prone. These measures would help:

1. Co-ordinate public sector and charity sector software commissions to ensure that two or more software projects do not unwittingly overlap.

2. Commission software development with a contract rather than accepting project proposals.

3. Make sure, for smaller projects at least, that two or more independent teams are commissioned to produce the same App. This might seem inefficient, but the competition and openness will mitigate scope creep, slippage and overruns. It is actually far more efficient.

4. Create what is effectively a private version of Google's Play Store, to hold, control and distribute software Apps that have been paid for by charitable benefactors, or that have been paid for out of the public purse, or that are in the public domain.

5. Try to persuade overseas governments to do the same, so that we can all take advantage of each others' software developments.

6. Try to harmonise software development tools. For charitable and public sector purposes, the most appropriate client software development environment is JavaScript, usually in conjunction with the HTML 5 and the HTML DOM. There are many potential server tools, but ideally they should be Cloud based and free for charities, or Open Source. Hence, if possible, where charitable or public social service Apps are being commissioned, they should be obliged to use JavaScript, perhaps via Cordova, together with a limited set of Cloud and Open Source server tools.

7. In order to minimise code loss and stealth commercial software development, software developers should be contractually obligated to store their source code and build environment on GIT, or some equivalent.

8. Force ISPs and/or mobile data network operators to provide free Internet access to families being supported by charities.
Finally, there is the charities themselves. Most charities are very inefficient, with poorly paid, low quality, unreliable staff, often augmented by skill lapsed and retired volunteers and Trustees. My colleague Lesley Michaelis has made some recommendations that might help to improve matters. Perhaps the most important of these is to force charities to amalgamate and/or de-federate if they are providing overlapping Big Society services. In addition, I suggest that the Government (perhaps through the Charity Commission) make the following IT systems and data improvements:

1. Plump for Office 365 or Google Apps and then negotiate a deal with Microsoft or Google to roll it out across all UK charities for free. Note that Microsoft and Google already provide core software products cheaply/free to charities but cloud storage, cloud services and some associated products are still relatively expensive. They should all be free.

2. Run a SharePoint server (or equivalent) that allows UK charities to share charity documents, legal documents, spreadsheets, training videos, teaching material, presentations, research data and any other digital IP that other charities might find useful.

3. Create a charity equivalent of HMRC’s "Basic PAYE tools" that performs basic financial and SORP reporting for any UK charity.

4. Make UK and foreign social services research and charity research available to all UK charities.

5. Commission longitudinal research into the effectiveness of UK charities. The public services crunch will come in the late 2020s. If we start now, we still have time to study the long-term impact of charitable activities, good and bad, to make sure we use charities as effectively as possible when the crunch hits.

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

No comment.

4 September 2016
1. About Hospice UK

1.1. Hospice UK is the national charity for hospice care. We champion and support the work of more than 200 member organisations, which provide hospice care across the UK, so that they can deliver the highest quality of care to people with terminal or life-limiting conditions, and support their families and carers.

2. About this response

2.1. Hospice UK welcomes the opportunity to contribute to the Committee’s work. This memorandum draws on the experience of hospices. We have limited our comments to those issues on which we are well placed to contribute.

3. Background

3.1. Hospice care began as a community response to the basic human need for dignity and compassion at the end of life. It takes a holistic approach to meeting people’s physical, social, psychological and spiritual needs, and provides support to families and carers before and after bereavement.

3.2. In 2015 there were 529,655 deaths in England and Wales, and the number of people dying is predicted to start rising towards the end of this decade.

3.3. The final report of the Palliative Care Funding Review estimates that between 70-80 per cent of all people dying would benefit from receiving some palliative care. It also estimates that this means around 355,000 people a year in England need palliative care but each year around 92,000 people are not being reached and so do not access the care they need.

3.4. The increase in the number of older people means that by mid-2037 one in 12 of the population is projected to be aged 80 or over.

3.5. A growing number of older people means an increased demand for care to help with multiple illnesses and chronic conditions common in old age.

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3.6. The number of young adults living with life-limiting conditions is also on the increase and there is evidence of growing numbers of young people with highly complex needs moving from children’s services into adult care.  

4. The purpose of charities – the contribution of hospices  

4.1. Palliative and end of life care is provided in partnership between the state and the voluntary sector. Hospices are unique among health and social care providers in contributing so significantly to both the provision and funding of palliative and end of life care.  

4.2. It is estimated that the UK currently spends around £4.5 billion to provide current levels of palliative and end of life care, although this does not account for unmet needs. The voluntary sector now spends £1 billion a year providing their services, and reaches 360,000 people, providing 26 million hours of care, 90 per cent of which is through day care and at home services.  

4.3. On average the NHS in England funds only a third of the expenditure of an adult hospice. Children’s hospices are funded differently to adult hospices and on average receive funding equivalent to a fifth of their expenditure from the government.  

4.4. Hospices depend on the generosity of their local communities, and fundraised income accounts on average for more than two thirds of the resources required to provide hospice care. Together, hospices in the UK must raise over £2 million each day to fund the care and support they provide.  

4.5. There are 240 organisations providing hospice care in the UK, the majority of which are local charities. Charitable hospices provide 2,570 specialist palliative care beds, representing 80 per cent of the beds within our healthcare system. In contrast, there are just 630 specialist palliative care beds available in the NHS.  

4.6. There are at least 125,000 volunteers contributing to the delivery of hospice care in the UK. The equivalent financial value of their contribution is estimated to be £209 million each year.

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226 Ibid.

227 Ibid.


4.7. Volunteers are vital to the high quality experience of those who receive hospice care. They will play an important role in ensuring the success of hospice care in the future\textsuperscript{230}.

4.8. Hospices are major providers of training on end of life care within the health and care system\textsuperscript{231}, helping to improve care provided in hospitals, care homes and in other settings. They also provide placements for a range of health and care postgraduates and undergraduates.

4.9. Hospices are well positioned to act as community hubs, empowering and enabling local people, and facilitating the compassionate communities that have been identified by NHS England as key to improving end of life care\textsuperscript{232}.

5. The purpose of charities – the impact of the sector

5.1. According to the National Survey of Bereaved People (VOICES)\textsuperscript{233} in England, for those who expressed a preference, 81 per cent of people preferred to die at home while just 3 per cent wanted to die in hospital.

5.2. According to VOICES, in England in 2015, 22 per cent of people died at home; 6 per cent in hospices; 24 per cent in care homes; and 49 per cent in hospital\textsuperscript{234}.

5.3. The quality of care provided by hospices is significantly higher than that provided in hospitals and other care settings\textsuperscript{235}. Of respondents who rated care provided by hospices, 76 per cent rated it as excellent. Being shown dignity and respect by staff in the last three months of life was rated highest in hospices – 87 per cent for hospice doctors and 86 per cent for hospice nurses.

5.4. Hospital is often not appropriate for people’s needs. In 2008, the National Audit Office found that 40 per cent of people who died in one hospital trust had no clinical need to be there, and nearly a quarter of these people had been in hospital for over a month\textsuperscript{236}.

5.5. There is an urgent need to improve palliative and end of life care\textsuperscript{237}. Around the country, there are numerous examples of hospices working in partnership with


\textsuperscript{234} Ibid.

\textsuperscript{235} Ibid.


\textsuperscript{237} Hospice UK is part of a coalition of charities calling for improvements in end of life care. You can find out more at www.endoflifecampaign.org
hospitals, care homes, primary care and home care services to deliver better care to more people, and helping to reduce the pressure on the NHS.

5.6. Hospices pioneer innovative approaches to improve people’s experiences of care. Hospice-led initiatives are helping to:

- **Reduce unnecessary admissions to hospital.** For example through the placement of hospice nurses in A&E departments to provide immediate palliative assessment and help to avoid admission.

- **Facilitate rapid discharge from hospital for people who no longer need to be there.** For example, by providing additional inpatient capacity commissioned by the local hospital²³⁸.

- **Provide alternative inpatient care for people who are unsuitable for home care.** For example, hospice beds or hospice-supported step down beds in care homes or community hospitals.

- **Help provide home based care for people who wish to die at home.** For example, hospice at home services that prevent unnecessary admission to hospital, or hospice delivered social care that is available immediately on discharge to support someone at home.

- **Deploy telemedicine to support people at home.** For example, hospice delivered 24/7 access to palliative care advice and support to patients and professionals²³⁹.

6. Pressures and opportunities – challenges faced by the sector

**Funding**

6.1. In the face of ongoing financial pressures, statutory bodies cannot hope to meet the health and social care needs of local communities on their own.

6.2. Hospices bring a strong combination of expertise, innovation, local engagement and resources to the table, and a desire to work in partnership to develop and deliver care. In some localities such partnerships are being established and are working very effectively. However these instances are sadly few and far between.

6.3. NHS and local authority funding for hospice care varies considerably between localities, and a variety of commissioning and contracting practices now exist²⁴⁰:

6.4. More than two-thirds of hospices had their funding from local NHS clinical commissioning groups (CCGs) either frozen or cut in 2014/15. More than 8 in 10

²³⁸ See for example [http://www.ehospice.com/uk/Default/tabid/10697/ArticleId/11537/](http://www.ehospice.com/uk/Default/tabid/10697/ArticleId/11537/)

²³⁹ See for example [http://www.ehospice.com/uk/Default/tabid/10697/ArticleId/6292/](http://www.ehospice.com/uk/Default/tabid/10697/ArticleId/6292/)

hospices (85%) do not think their hospice is funded fairly and sustainably by the NHS and local authorities.

6.5. By investing in hospice care, the NHS and government can reduce the number of people in hospital at the end of life with no clinical need or wish to be there, helping to relieve financial pressure on the NHS and the strain on A&E and acute wards.

**Commissioning**

6.6. In our most recently published survey of charitable hospices in England\(^\text{241}\), we found a significant proportion of hospices experiencing frozen or reduced funding, increasing complexity of commissioning arrangements and overall an absence of proportionality in the contractual arrangements being required by many NHS commissioners.

6.7. On average, hospices in England have to work with four different local CCG commissioners. To secure funding from CCGs – and manage the various different commissioning and contracting agreements – hospices have to commit resources which are disproportionate to the limited funding contributions they are receiving.

6.8. Hospice UK believes that there are a number of steps that should be taken by the NHS to make immediate improvements to the commissioning of hospice care. Our recommendations, based on our research around the experience of the hospice sector are that:

6.8.1. NHS England should ensure that commissioning practices reflect a proportionate approach to commissioning, contracting and monitoring arrangements. Guidance to commissioners and their support teams should be strengthened to give them confidence in using appropriate funding arrangements. For example recognising that the NHS Standard Contract is not always an appropriate tool for arrangements with hospices and other voluntary sector providers. Building on previous guidance and tailored arrangements around the NHS Standard Contract and model grant agreements.

6.8.2. Local commissioners should seek to engage with partner organisations, including other health and social care commissioners to collaborate (for example through lead commissioner arrangements), to help improve efficiency and better support strategic planning of hospice and palliative care services.

6.8.3. Local commissioners should use contracting arrangements with hospices which are proportionate to the contribution they are making towards hospice care costs; consistent with NHS England guidance, this should include grant agreements.

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Partnership-working

6.9. Some localities have entered into partnership arrangements between hospices and the NHS to maximise the impact of the available resources (both statutory and charitable) to deliver better end of life care\textsuperscript{242}. These ‘co-commissioning’ arrangements often better reflect the partnership that exists between the NHS and hospices as major funders of care.

6.10. For example, St Helena Hospice in North East Essex, has entered into a joint commissioning relationship with their CCG. Believed to be the first arrangement of its kind in the country between a CCG and a hospice it recognises the hospice as a lead provider in the community and a significant funder of services. The relationship aims to utilise the social value benefits of a joint NHS and voluntary sector-led approach to planning for, and meeting, increasing demand for non-acute end of life and palliative care services.

6.11. The benefits of this approach have included: significant cost savings per annum; the delivery of the local End of Life Care strategy; and enabled a key contribution to the local Keogh Action Plans – e.g. more people being cared for, and dying, in their place of choice; further integration of end of life care pathways; phased reduction in unmet need in the community; and greater patient choice and individualised care.

7. The role of government – local statutory organisations and end of life care

7.1. We know that palliative and end of life care in this country can be the best in the world\textsuperscript{243}. However, too many reports in recent years have shown that the care experienced by dying people and those closest to them can vary depending on where they live, their particular condition, age or ethnicity.

7.2. In a health and social care system where decisions about what services are provided, and for whom, are devolved to the local level, local decision-makers and commissioners need to have a clear picture of the needs of people in their areas. Our recent report on how local statutory structures address end of life care needs within their planning and decision-making indicates that they do not have this picture\textsuperscript{244}.

7.3. For example, through our freedom of information request we found that:

- 1 in 3 (34 per cent) of Health and Wellbeing Boards (HWBs) do not consider the needs of dying people when assessing the health and care needs of their local populations.

\textsuperscript{242} See for example http://www.ehospice.com/uk/Default/tabid/10697/Articled/10368/


\textsuperscript{244} Hospice UK (2016) A low priority? How local health and care plans overlook the needs of dying people. Available at: https://www.hospiceuk.org/docs/default-source/Policy-and-Campaigns/briefings-and-consultations-documents-and-files/hospiceuk_a_low_priority_report.pdf?sfvrsn=4
Progress on improving local care and support for people approaching the end of life has stalled; almost 6 in 10 (57 per cent) HWBs do not include the needs of dying people in their key strategies – the same as in 2014.

More than 1 in 4 (27 per cent) CCGs do not have a strategy for addressing end of life care in their area.

Over 7 in 10 (71 per cent) CCGs do not have a strategy for children and young people living with life-shortening conditions.

Children’s palliative and end of life care needs receive much less attention than adults’ needs; 78 per cent of CCGs have a nominated lead for children and young people, compared to 96 per cent for adults.

Our findings show a significant inconsistency in the consideration of adults and children with palliative care needs in the building blocks of health and care planning.

7.4. Local health and social care leaders should work with the local charitable providers of hospice and palliative care to better understand the needs in their communities. Hospices and other charitable palliative care providers have huge amounts of data – across demographics, activity, and outcomes – which could support Health and Wellbeing Boards (HWBs) and Clinical Commissioning Groups (CCGs) in developing their needs assessments and strategies.

7.5. All HWBs and CCGs should develop palliative and end of life care strategies. They should do this in a way that brings health, social care and public health systems together in response to the increasingly complex experiences of our ageing population.

7.6. Improving people’s access to high quality palliative and end of life care will not only lead to better outcomes for people, families and carers, it will also help to address some of the wider structural challenges that our health and care system is facing. For example, equitable provision of hospice care can mean people’s needs are met in a timely way, with appropriate services, rather than having to access inappropriate acute care. This is essential in a period of growing demand for health and social care services.

5 September 2016
1.1 ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead ‘effective governance and efficient administration of commerce, industry and public affairs’. With 125 years’ experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance.

1.2 We are the professional body qualifying and supporting Chartered Secretaries, corporate governance, risk and compliance professionals in all sectors of the UK economy. Members are educated in a range of topics including finance, company law, administration and governance, which enables them to add value to any organisation.

1.3 ICSA has an extensive pedigree in the governance arena, advising governments and regulators on company law, charity law and corporate governance. The breadth and experience of our membership enables ICSA to access a variety of applied experience in order to provide pragmatic insights into effective practices across a range of organisations. Our members’ wealth of expertise and experience of charities, together with their detailed understanding of charity and company legislation and regulation, has informed our submission.

2.1 Executive summary

2.1 Recent media stories have highlighted a disconnect between the general public’s understanding of charity and how such organisations are led, managed and operated in the 21st century. This disconnect has led to a decrease in the public’s stated trust and confidence in the sector which, if not addressed, could have a devastating impact on those depending on charities to make their lives better: the beneficiaries.

2.2 In addition, austerity has meant that many charities have seen an increase in demand for their services while income has declined. This has presented challenges to those that lead charities, seeking new and innovative ways of delivering services and attracting funding. Funding that is a long way from the image of a volunteer and a donation tin; further fuelling the vicious circle of disconnection between the sector and the general public. Furthermore, the sheer size, complexity and diversity of the sector is difficult for many not familiar with it to appreciate, especially when other non-profit and social purpose entities are included.

2.3 Unlike many other entities reliant on the public for their funding, whether as customers, donors or taxpayers, the governance of charities still relies generally on unpaid volunteers (trustees) to donate their time and expertise. It would be wrong to suggest that trustees do not derive any benefit from their position, but it is usually unremunerated, with satisfaction gained by helping achieve the charitable objects of the organisation, or acquiring new skills. In return for this demonstration of civic
duty, trustees are being subjected to an increasingly demanding regulatory regime. A regulatory environment that appears to be more interventionist than regulators in other sectors where significant remuneration packages are available. The charity sector might be held in higher public esteem than, for example, banks, but whilst the impact on the economy of a charity failing (such as Kids Company) is significantly less than that of a high street bank, the sanctions against the boards of charities can seem disproportionate. It is likely that the numbers choosing to become trustees will decline as the new Charity Commission powers bite.

2.4 The charity sector regularly faces challenges: political disdain; funding decline; supporting causes unpopular with the general public; and policy changes. But its innovative ethos has seen it overcome those challenges time and again and emerge more resilient. The current challenge facing the sector requires, once again, innovative thinking and fundamental shifts in the way charities hold themselves to account.

3. The purpose of charities

3.1 The role and purpose of charities in civic society in England and Wales has always been linked to an awareness and desire for one or more individual(s) to change something in society for the benefit of those less well off – not just in financial terms, but in emotional, physical and mental well-being, spiritual, environmental, local, national and international contexts. From times when wealthy individuals established better working environments, or education and health provision for specific communities to modern charities with memberships greater than political parties, charities have recognised a social need or cause for legal change and campaigned or provided services to meet that demand. Modern society may have replaced some charitable activity with state-funded services, but as austerity has increased, public services are put out to tender with the sector encouraged to bid, and many other statutory services are once again being nudged towards voluntary provision and funding. This has come at a time when charities are facing increased demand for services, while funding has decreased.

3.2 While charities have evolved in the ways in which they generate income and deliver their charitable objects, the public’s understanding of what a charity in fact is and how they are run has not kept pace. The public is also less deferential, and more litigious. At the same time, developments in regulation and governance have led to an increase in the expectations of what trustees should be doing, though most charities still rely on volunteers to lead and manage the charity, and provide the services to beneficiaries. Operating a modern charity is potentially far more complex

245 Statute of Elizabeth 1601, The Poor Law 1662, Pemsel’s four heads of charity 1891. A 2015 blog by Andrew Purkiss highlights the impact of charity campaigning on improving society - http://www.civilsociety.co.uk/finance/indepth/analysis/content/20277/shaping_history_charity_campaigning_for_change.
and perilous than at any other time in their history.

3.3 This presents an opportunity for charities to be far more open and accountable in the way they operate and to demonstrate the public good they deliver. It is no longer sufficient to exclaim that they are a charity and expect people not to question them further. There is a challenge for all charities to be transparent about how they are run, raise money and support the people or environment that their objects require. This means being honest about success and failure, whilst reflecting the difficult situation in which they operate, and how that affects recruitment of staff and volunteers.

3.4 Charity has moved on from merely treating the symptoms to tackling the causes and trying to prevent them. As such, those working in charities or using their services have to work in partnership to ensure valuable resources are used to optimum effect. This partnership has to extend to the way that charities are run and held to account. Transparency and proportionate accountability are key to ensuring governance is working, which in turn translates to delivering the charitable objects in the most effective manner possible.

4. Governance and leadership

4.1 The skills required to lead and manage a charity are no different from those required in any other type of organisation. The expectations placed upon charity leaders however are very different from other sectors: this can range from the salary levels offered to chief executives; to business practices and models; the location of head offices; funding arrangements; and strategic decisions about how best to achieve the charitable objects. The public, whether they donate to the charity or not, appear more willing to voice a moral judgement about the way it is run, than they would about any other corporate entity. The emotional and moral investment by the public in the concept of charity requires a leader that understands that investment and can steer the charity in a commensurate way. One positive aspect in achieving that congruency is that generally, charities are led and directed by volunteer trustees. This is also a considerable challenge.

4.2 There are various qualifications, professional support organisations, training and infrastructure bodies aimed at supporting those working within the sector. From master’s degrees to ongoing professional development, a committed charity leader has a huge array of options to choose from, should they so wish. Unfortunately, the sector as a whole is not terribly great at using charitable funds to invest in the future skills and development of trustees, managers and others seeking to contribute fully to the sector.

4.3 Depending on the size and complexity of the charity in question, the trustees are likely to play a very different role in terms of the organisation’s performance and

effectiveness. As with commercial entities, the role of the board will fluctuate in times of growth, consolidation and challenge. In a large charity, the board will act as a sounding board for the senior managers and monitor progress against the agreed strategic plan. In smaller charities, the trustees will also be the people delivering the services and activities, so will be more hands on in terms of performance and effectiveness. In both instances, the board will be responsible for ensuring the charitable objects are being delivered, and will be accountable for their decisions and actions, including those delegated to staff.

4.4. ICSA: The Governance Institute has previously called for large charities to appoint a governance professional to support trustees in their role (https://www.icsa.org.uk/knowledge/governance-and-compliance/features/april-2016-a-turning-point). Within large companies, it is recognised that boards, and especially the chair, require access to a professional with knowledge of how boards operate and of the legal and regulatory environment in order to advise and recommend ways forward. This individual should not be the chief executive, finance director or legal counsel, as combining that role with the governance adviser creates a conflict of interest. The governance professional should be appointed by the board and report to the chair. Research by ICSA has highlighted the value that can be added to a board by having access to a governance professional for guidance and support (https://www.icsa.org.uk/knowledge/research/the-company-secretary-report).

4.5 There is a perennial debate in the sector about the need to pay trustees. Whether the law is changed making it easier for charities to remunerate or not, would not have a material impact on the majority of charities as they simply do not have the funds to divert away from the beneficiaries they seek to help. As with investing in proper governance arrangements, including recruitment, induction and ongoing development of trustees, charities do not necessarily see that the money would not be better used helping people or the environment. Financial reward will not create more hours for busy people and, as has been witnessed in the corporate sector, it does not remedy the more common weaknesses in governance. That said, if a charity can present a convincing business case supporting the payment of trustees as it would benefit the charity, then the process should be streamlined, but subject to ongoing review. This would ensure that such payments are still in the best interests of the charity. Once it is no longer in the interests of the charity, the situation should be easily reversible. When the situation changes, a new business case can be presented. Where trustees are paid, that information should be publicly stated, alongside the business case.

4.6 There is a need within boards, senior management teams and those involved in the charity sector however, to appreciate that professionalism is a state of mind, and that it is the approach taken to the job in hand that is more important than the small recompense that might be gained. Trusteeship is a position of privilege, and the role should be performed in a manner that repays the trust placed in it.
4.7 As mentioned above, there is a vast range of products and services available to trustees to help them develop in their role. Some can be expensive, but others are free. Encouraging trustees to invest their time in improving their skills and competencies needs to be looked at more seriously. Within the corporate sector, a code of governance aligned to a regulator has gone some way in improving governance, though it will not, and arguably cannot, eradicate all poor governance. Perhaps, the sector’s governance could be improved and taken more seriously if the Charity Commission requested annual returns to report compliance with the sector’s own code of governance? A regulatory expectation that charities invest resources in developing trustees, would help some to come to terms with the need to spend to improve the chances of the charity achieving its charitable objects.

4.8 Good governance is generally seen as a good thing for organisations. It is difficult however, to prove that good governance leads to successful organisations. Within the corporate sector academics have tried to link good governance to an enhanced bottom-line, but it is difficult to prove that the link is causal\(^\text{248}\). Within the charity sector, it is even more difficult to prove the link as the criteria of success is more complicated than measuring the bottom-line or numbers of people using the service provided. Proving the value good governance adds to a charity is challenging. This is an area of research ICSA is seeking to address. There are however, a number of awards within the sector that seek to promote good governance\(^\text{249}\).

5. Accountability

5.1 As mentioned above, good governance cannot exist in a vacuum. It requires accountability and transparency to ensure decisions are being made in the furtherance of the charitable objects. As with corporate governance developments, there is a role for stakeholders in actively helping improve governance arrangements in charities. Whether it is members actively engaging in the formalities of an AGM, or challenging in an appropriate way the decisions of the board, or even questioning the ongoing relevance of the charity, there is a role for stakeholders in helping to keep the trustees true to the charitable objects.

5.2 This will require trustees and charities to be more open and honest about the success and challenges of the organisation and the decisions made. This should be a relationship built on a desire to learn from mistakes and implement continuous improvement. Trustees should not necessarily be caught in a blame game, as this is not conducive to an honest and progressive relationship. But neither should trustees be keen to hide behind secrecy and confidentiality.

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5.3 Greater emphasis could be placed on charities to provide narrative reports that better explain how well charities are doing in achieving their charitable objects and the contribution and performance of the board. This would also demonstrate a better awareness of the charity's culture, approach to risk and use of volunteers.

7. Lessons from other sectors and countries
7.1 The charity regulatory and taxation regime in England and Wales, Scotland and Northern Ireland, is far more sophisticated and supportive than those in other parts of the world. However, there has been a demonstrable tightening of the regulatory environment in which civic organisations operate around the world (http://www.civicus.org/index.php/en/socs2016). This is a worrying trend; one which could be seen as a deliberate attempt to muffle alternative voices.

7.2 The charity sector, and its regulatory environment in England and Wales, has been analysed and parts of it exported across the commonwealth. Developments in devolution, however, have added to the complexity for charities working across borders. For charities registered in England and Wales, but operating with our closest neighbours there is a different piece of charity legislation to be considered and applied. Whether it is charity law in the Isle of Man, Jersey, Guernsey, Northern Ireland, the Republic of Ireland, or Scotland there are fundamental differences that can create a governance and compliance headache. This adds to the costs of the charity without always adding any greater assurance to the public. It is also not widely understood by the public.

5 September 2016
1. About Impetus – The Private Equity Foundation

1.1 Impetus-PEF is a charity that supports other charities to become more effective, and then to grow. We partner with high-potential charities working to help young people, from economically disadvantaged backgrounds, succeed in education or employment.

1.2 We do this by providing extensive management support to a charity’s executive team, as well as sourcing high quality pro bono partners from professional firms. Finally we provide core funding over several years. We help charities improve their service delivery, management, and sustainability so that they are better able to consistently make impact for their young beneficiaries. We then help them to grow.

1.3 Over the last decade we have worked closely with almost 50 charities – through this we have learnt a great deal about what helps and hinders charities in the process of becoming impactful and sustainable. We are pleased to be able to share some of this knowledge in this submission to the Lords’ Select Committee on Charities.

2. What is the role and purpose of charities in civic society in England and Wales? What challenges do charities face in trying to fulfil their role in civic society? How can these challenges be overcome?

2.1 We believe that the role of the charities we support is to help economically disadvantaged young people achieve outcomes that (a) meaningfully improve their lives over the long term and (b) would not have been achieved without the help of the charity. These include such ‘hard’ outcomes as C grades or higher in GCSE Maths and English, or getting, and keeping a job for more than a year. Similarly valuable outcomes can be identified when working with any group of people with defined needs.

2.2 Securing meaningful outcomes for those who wouldn’t have otherwise got them is a high bar – few charities can reliably claim to consistently achieve this for the majority of their beneficiaries. Attaining this is absolutely the biggest challenge that charities face even though it is not the one that attracts the most attention within the social sector, or outside of it. Our work actively seeks to support charities with his challenge, and we believe that many other funders, and government, could support this too.

2.3 One of the greatest challenges for charities seeking to become ever more impactful is that the funding environment does not consistently incentivise or reward a focus on impact. Grant-makers, including philanthropic foundations and government departments, have
been keen to incentivise, and reward, efforts that result in growth in activities (for example, increasing the number of people served), but less so efforts that result in growth in outcomes (for example, increasing the rate of success at securing long-term outcomes). Alignment with a funder’s or department’s own priorities is also frequently rewarded with funding, even if it is likely to pull an organisation off-mission, which reduces its chances of creating impact.

2.4 Even where funding for charities is not grant-based, i.e. commissioned services, it is often not frequently outcome-based, with many contracts still paid on an outputs basis, and little work done to assess the long-term outcomes – or lack thereof. In such an environment we should not be surprised that there are gaps in outcome-producing capabilities, as there are few immediate incentives to fill them. In a world of scarce resources, charities rationally respond to incentives, putting resources into growth, or diversification.

2.5 We help charities overcome this by providing resource, time, and expertise to focus on impact. Just one example is The Access Project, with whom we’ve worked since 2014, and who help young people from disadvantaged backgrounds access selective universities. With our help they have begun to enrol a more disadvantaged group of young people, provide a more intensive and long-term programme to raise attainment, and change their outcome from being offered a place at a top third university, to enrolment at a top third university.

3. What skills are required to lead and manage a charity? - How can these skills be gained? - What support exists to develop these skills within the charitable sector?

3.1 We purposefully seek to support and develop the following competences/skills in the CEOs of our partner charities, as we believe they are the most critical for making impact for beneficiaries:

- Strategic leadership: this refers to a leader’s ability to understand the external context, including risks and opportunities, and how they will; affect the organisation’s ability to fulfil its mission. A skilled leader will anticipate changes likely to affect delivery, and adjust in accordance. They will understand opportunities for growth and prepare well for them, as well as threats to impact. #

- Performance Management Leadership: this refers to a leader’s ability to drive performance management across the organisation and build a learning organisation, informed by a command of detail across all areas of business. A skilled leader will build an organisation which continually improves through learning based on performance data. Staff, and the leader themselves, are held to account on their ability to make data-driven decision which improve outcomes for beneficiaries.
- Resource Allocation: this refers to a leader’s ability to allocate existing resource, and invest for the future, against those activities and capacities which most generate, or contribute to, outcomes for beneficiaries. A skilled leader does not allow significant organisational resource (financial or human) to be spent on things which do not contribute.

3.2 We also support the CEO in recruiting and developing a SMT with the required competences in finance, programme delivery, IT, fundraising, HR, and communications (depending on the size of the organisation).

3.3 We do not believe that there is adequate support – provided on a philanthropic or commercial basis – on these CEO skills available to the social sector. Over the past 15 years there has been significant funding, from the government and philanthropists, dedicated to developing sector skills and capacities in three areas:

- Sustainability e.g. The Cabinet Office’s £100m Transition Fund in 2010
- Financial management e.g. the Cabinet Office’s £10m Investment and Contract Readiness Fund in 2012 and Big Lottery Fund’s £10m Big Potential Fund
- Impact Measurement e.g. The Cabinet Office’s Inspiring Impact programme and £3m Impact Readiness Fund

3.4 All three areas are important but as supporting factors for the most important competence – increasing the impact a charity makes for its beneficiaries. Impact measurement is a crucial supporting competence but frequently turns into an exercise in impressing funders and commissioning, rather than in understanding current impact and the steps needed to take to improve.

3.5 There are many commercial providers of consultancy to charities offering support in the areas above but almost none (particularly with any track record) helping charities identify weaknesses in the delivery of their services to beneficiaries, eliminate them, and drive up performance. We fill this gap philanthropically for our partner charities but believe that other organisations must develop and offer expertise in this area as well.

4. What role should trustees play in the performance and effectiveness of a charity? How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

4.1 It is the trustees’ responsibility to (a) hold the executive to account on fulfilling the charity’s mission, and (b) to provide fiduciary oversight. A competent board will have a good understanding of the organisation’s strategic and operational effectiveness, and be able to provide support and challenge to the executive in making improvements. They will also have
a clear understanding of the organisation’s financial position, both in-year, and in terms of fundraising and risks for future years.

4.2 There is training available to improve trustees’ financial competence and understanding of governance responsibilities in general. However, we believe that there is too little understanding of the importance of holding the executive to account on the fulfilment of the mission, and delivering impact to beneficiaries. To do this, it is crucial that trustees see data that allows them to understand what current impact is, and we do not believe this is routinely the case.

4.3 Further, trustees can take as their overriding concern the future existence of the charity, leading them to prioritise opportunities for income which may be off-mission for an organisation, or which puts at risk impact for beneficiaries. Trustees must take seriously survival and sustainability but not at the expense of being able to make impact.

5. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

5.1 A charity’s overriding accountability is to its beneficiaries – to provide for them the outcomes that it promises. This accountability must be driven by the CEO, and visible throughout the organisation down to the frontline staff. A charity can tell the story of its understanding of current impact, and drive to improve, in a way which is inspiring to both donors and public without using misleading figures.

5.2 The calls for greater transparency following recent charity closures are welcome – but great charity practice must not be reduced to only financial competence, as importance as this is. Charities must be accountable for spending their money on activities which consistently lead to proven impact for their beneficiaries. All charities should be on this journey and be able to demonstrate this – even if they are at an early stage and at a small scale.

5.3 In terms of how a charity can assess - or be assessed – on whether it is likely to be making an impact, there are some key headline questions:

1) Is the charity delivering services to the people it is committed to helping i.e. is it enrolling people who are not really in need, or people who need more, or different, help than the charity can realistically provide?

2) Has the charity defined the outcomes it will achieve for those it helps, both in terms of the long-term difference it makes, and the short-term differences that can show progress?
3) Is the charity consistently delivering services which can realistically get people to those outcomes? Is there much variation, and if so, are there rationale for these variations?

5.4 It is the job of the trustees to hold the executive to account on these questions just as much, if not more, than on questions of sustainability. We also recommend that funders of all types, including government, ask these questions of the charities they support, and do not simply look for eye-catching headline figures of impact made. The need to attract funding has led to an ‘arms race’ in impact measurement, with charities claiming ever more impressive figures of people supported. These figures frequently do not stand up to scrutiny.

5.5 We recommend funders focus on trying to understand whether charities have a really clear idea of what they’re trying to achieve, a clear definition of who they’re trying to achieve this for, and a codified programme (the how) for achieving these results which can be monitored, and flexed if it’s not achieving the expected results. These questions can help funders understand the scale of a charity’s challenge, and supportively hold them accountable for getting progressively better at meeting this challenge.

6. How can charities effectively deliver services and be assured that their work achieves successful outcomes?

6.1 Impetus – PEF places the effective delivery of services at the heart of our support to charities. Alongside funding, we provide extensive expertise to help them first build an evidence-based programme likely to produce meaningful outcomes for beneficiaries, and then to implement this programme in a way which ensures no beneficiary can drop out, or fail to make progress, without this being noticed, and acted upon.

6.2 Initially, we help organisations make decisions on their mission, target population, outcomes, programme design, and performance management metrics. We then support the leaders to implement these decisions, ensuring that accountability for outcomes runs throughout the organisation from Board to frontline, and that there is a process for continual monitoring and improvement of these outcomes.

6.3 Below are some examples from four of our partner charities of their outcomes before and after our support, shoeing how they have both become more specific and measurable, and raised the bar.
<table>
<thead>
<tr>
<th>Old long-term outcomes</th>
<th>New long-term outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>In education, training or employment (loosely defined) 12 months after the end of the programme.</td>
<td>Sustained full-time employment (defined) or succeeding in full-time education (defined) or sustaining part-time employment and succeeding in part-time education – check-in at 3, 6, 9, 12 months after leaving the programme.</td>
</tr>
<tr>
<td>Getting a job (16 hours a week plus or getting into higher education at the end of the programme.</td>
<td>In sustained employment (more than 12 months out of the past 18 months, and 24 hours per week) or in higher education – on a course of at least two years in length, at Level 4 or higher.</td>
</tr>
<tr>
<td>C grade in English or maths GCSE.</td>
<td>5 A*-C grades at GCSE, including English and maths.</td>
</tr>
<tr>
<td>Securing a place at a top third university.</td>
<td>Enrolment at a top third university.</td>
</tr>
</tbody>
</table>

6.4 Alongside external evaluation, we believe this process is essential to take charities to a place where they are consistently producing outcomes for the majority of their beneficiaries. As said above, we would like to see many more funders, including government, support charities to invest in this process and capacities.

7. What is the potential of social investment and social impact bonds? - What are barriers to fulfilling their potential?

7.1 As a philanthropic organisation which has also made for-return investments into three Social Impact Bonds, we have observed that this mechanism can accelerate performance and effectiveness within a charity. The fact that the investors’ financial returns are predicated on social returns leads to a concerted focus on these social returns and whether the charity is likely to produce them. In practical terms this incentivises charities to collect data on individual beneficiaries, track their progress, and take action where progress is not being made. This data-driven decision making is a positive development, and we would encourage the proliferation of Social Impact Bonds so that this effect can be further spread, and observed. They can also be a useful enabler of outcome-based commissioning, which we believe encourages the focus of both commissioners and charities on beneficiary outcomes.

7.2 Social investment for charities, in the form of loans, or quasi-equity, can be a useful tool for charities who have secure existing sources of funding, but are keen to expand or invest, and cannot meet the costs of this from philanthropic sources. However, it is hard to see how
repayable finance can help organisations who are really struggling to fundraise for their core operating costs, and it is unlikely that most trustees would take a risk like this. For charities in a relatively secure funding position which would like to raise investment and have a good business case to make, there should be no shortage of capital, given the amount of funding and incentives the government has put into the fledgling market.

8. What should the role of Government be with the sector?

8.1 As a grant maker, government’s role should be to act as a critical friend to the sector, challenging and supporting them to build the capacities for impact, and improving them over time. Government fails when it either expects or accepts simple ‘quick’ stories of impact. Charities are trying to solve problems at which the public and private sectors have failed, and so government must not be tempted to look for quick fixes from the charitable sector.

8.2 As a commissioner, local and central government should ensure that:
- charities are not unreasonably disadvantaged versus private sector peers, for example on balance sheet expectations.
- seeking value for taxpayers does not lead to unrealistic pressure on costs for charities. Cutting costs is unlikely to lead to improved outcomes, and it is simply a waste of money to commission underfunded interventions which provide no outcomes at all.
- as far as possible they commission on an outcome basis. This not only places beneficiaries/clients in the centre of the process, it also incentivises an outcome-focus from commissioned organisations
- they monitor key metrics which track how likely beneficiaries/clients are to achieve these outcomes. Progress against these should form the basis of the performance management carried out by the commissioner, triggering action by the commissioned organisation.

9. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

9.1 We have observed several charities in the US which have developed the ability to consistently make meaningful impact and we have sought to replicate some of their processes in the support we provide to charities. We know that many of these charities were supported with core funding over the long-term to develop these capacities by large ‘venture philanthropist’ foundations.

5 September 2016
Institute for Voluntary Action Research — Written evidence (CHA0091)

1. Introduction

1.1 This submission responds to Question 8: Social investment and addresses both of the Committee’s sub questions: What is the potential of social investment and social impact bonds? What are barriers to fulfilling their potential?

1.2 The Institute for Voluntary Action Research (IVAR) has initiated new research on small and medium-sized charities’ experience with social investment. This new research is being funded by IVAR, Barrow Cadbury Trust and Access – The Foundation for Social Investment, and has the support of the Charity Commission. The research will be published in early 2017. Further detail from the research could be made available in the meantime.

2. What is the potential of social investment and social impact bonds?

2.1 The potential of social investment for small and medium-sized charities is under-researched and unmapped. Small and medium-sized charities are those with a turnover between £10,000 and £1 million. There are 62,789 of these organisations in England and Wales compared to 4,273 large and major charities. Of the 31 items included in our literature review, only three involved direct consultations with charities and only our previous study for the Charity Commission concentrated on small and medium-sized charities. In addition, no material was found about charities that have been turned down for social investment.

2.2 Some of the reports that we reviewed suggest that there is a potential demand for social finance amongst some smaller organisations wanting to ‘scale up’ in order to achieve greater impact and greater economies. In particular, what is anticipated is a demand for smaller value, unsecured investments amongst small and medium-sized charities.

2.3 However, the literature suggests that there is a gap in the supply of the kind of higher risk investments – what Robbie Davison and Helen Heap refer to as ‘builder finance’ – that this would require. Moreover, in order to make a profit, there is an incentive for investors to concentrate on higher value transactions associated with larger, more mature organisations. Intermediaries can address these issues by designing funds that have ‘an explicit goal to appropriately balance its service offering across large and small organisations at various stages of profitability and maturity’. Motivation for social investment among the charities that we spoke to was split roughly 50:50 between strategic opportunities and necessity or crisis.

2.4 **Strategy:** These charities took social investment in a planned way as part of their strategy to develop their organisation and/or protect themselves against changes in the operating environment especially cuts to and reorganisation of local authority contracting. A small number saw this as being explicitly about becoming independent, buying time to restructure or review their strategy and highlighted the value of having unrestricted finance in the form of the loan.

2.5 **Necessity:** Many of the charities needed funding fast in order to cope with a cash flow problem created by their lack of working capital, the sudden need to move premises and/or to buy their own building because it was put up for sale. Some felt pushed into the decision because they had to buy or lose their premises or had exhausted all other options. For most of these charities, a loan was the only type of finance they could obtain at the time; they would have preferred a grant: ‘It [a loan] was completely against the culture [of the organisation]. But they [trustees] accepted the necessity’.

2.6 Most charities that received a social investment took a secured loan to buy, redevelop or build a property. These organisations had not encountered difficulties in making repayments and were conscious of the advantages of moving from paying rent to purchasing an asset. They were very positive about the outcomes.

2.7 Some charities welcomed non-financial support, receiving for example, independent support to redevelop management accounts and on legal structure. A number of charities noted that the process had encouraged strengthening of Boards, bringing on finance and legal professionals as a result of the investment experience.

2.8 We were conscious that the social investment field was not stationary while we were carrying out our research. Nonetheless, as we complete the research, one key message from our 2013 research appears still relevant: that financial products need to be tailored to what charities need in order to fulfil their mission rather than what markets need in order to generate demand. If the demand for social investment is driven by strategy and necessity, national and local outreach and marketing should reflect that reality, rather than focusing primarily on impact and scaleability.

2. **What are barriers to fulfilling their potential?**

3.1 One-third of charities experienced difficulties or constraints following social investment. At the lowest level, these included awareness that the need to make loan repayments prevented the expansion of staff and services. Other organisations’ expansion or diversification plans failed, required renegotiation of loan repayments or a request for interest-only or repayment holidays. In some cases, repeated refinancing and top-up loans have left charities in strategic, geographical or financial difficulties.

3.2 The majority of newly-borrowing charities only approached one social investor and they were referred by one trusted advisor, mainly external to but supportive of the charity. There was little scoping or review of the market, which charities found to be opaque and confusing. They did not compare average loan sizes, interest rates, loan terms, lender
experience in their sub-sector or track record of successful investing. Instead, they relied on their trusted advisors to direct them to the most appropriate lender for their purpose.

3.3 Charities do not know, and it remains difficult to find out, what range and type of finance different lenders provide and which to approach for particular needs and in particular circumstances (albeit noting the role of Access in supporting collaboration between social investment finance intermediaries). Other research confirms this lack of awareness of social investment options and also the challenge for smaller organisations of dedicating the time and resources needed to navigate the market. Marketing and promotion by social investors is broad in its scope and makes it difficult for those approaching the market for the first time to differentiate between lenders, products and offers of support.

3.4 We identified three kinds of organisational journey among the 25 charities that we interviewed: stressful, confident and the ones that ‘walked away’.

3.5 **Stressful:** Trustees and officers alike felt overwhelmed by the magnitude of the decision: These charities had little or no prior knowledge and experience of any form of charity finance other than grants, donations and local authority contracts. Every aspect of the social investment experience was unfamiliar and so essentially they were piloting social investment for their own organisation. The application process was difficult to handle not only because charities did not know how it worked but also because lenders did not explain it well. Many of these were stretched, busy service delivery charities handling social investment ‘off the side of the desk’.

3.6 These charities had not entered into social investment in a planned way; a loan was the only finance available at a time of urgent need. The impact of the loan had been similar to having an unrestricted grant in that it provided the organisation with breathing space and the flexibility to spend the funds where it was urgently required. Mainly, charities for whom this had been a stressful experience, did not see social investment as being a new way to finance their work but instead had focussed back on identifying independent funders for new grants.

3.7 **Confident:** Not everyone struggled with the social investment process, however. For some trustees, although they did not take the decision to seek investment lightly, it was on a par with other major decisions that they had taken in the past such as entering a contract, or merger. For several of these charities, the prospect of needing to generate an income and/or purchasing and managing property were not new to them and although they were far from complacent about these undertakings, their track record gave them a degree of confidence.

3.8 Where social investment and associated tasks were new to the organisation, critical factors in assuring a ‘confident journey’ were a confident Board that worked well together, access to a skilled accountant (either in the role of treasurer or as a pro bono or paid advisor) and robust financial systems. In these charities, responsibility for investigating, championing and applying for investment was shared between at least
one senior officer and one trustee who appeared to have a good relationship and a common understanding of the organisation’s direction.

3.9 A minority of the charities we interviewed said that they expected to take on further investment in the future. Most of them said that while they wouldn’t rule it out altogether, there would need to be a strong business case for doing so and the finance would need to be for something that the charity really needed to do.

3.10 **Walked away.** Like most of the charities in this study, these charities looked into the possibility of social investment because a trusted funder or advisor suggested it as a way to diversify their income. They withdrew from the process for a number of reasons that fall into three main groupings, the first one being dominant across all of the charities: lack of alignment – investors lacked understanding of charities, charitable purpose and the idea of public benefit; opaque processes – investors could do a lot more to explain their due diligence processes; and organisation – some charities walked away because of a perceived weakness in their finances, their financial processes, governance or leadership.

3.11 Not all the charities we spoke to had turned their backs on social investment. Sometimes the timing hadn’t been right – one charity said that they were ‘starting to get our heads around it’ now; while another charity had stepped back while it coped with a change in Chair and CEO. But overall, any remaining appetite for investment was for blended finance provided by investors with a genuine commitment, knowledge and understanding of charity, particularly the realities of operating smaller, local charities.

4. **Other Barriers Experienced by Small and Medium Charities**

4.1 Working Capital and Full Cost Recovery:
Many organisations have seen reduced local and central government funding and a switch to commissioning / output related funding. They are unlikely to be prime contractors, instead they are often at the end of a long supply chain, which adds an extra level of risk to their funding. In the past, grant funding was often provided upfront which removed the necessity for working capital. Now, organisations need to build both reserves and working capital - if they are using reserves for working capital, they are no longer available in the case of internal or external shocks. Our findings are reflected in research across the wider voluntary and social enterprise sectors – both this research and a recent members’ survey carried out by Social Enterprise UK seem to indicate an increase in charity and social enterprise organisations being forced to borrow for working capital, as a result of subcontract work for the public sector. 

In the words of one respondent, this means that organisations need ‘full, FULL cost recovery’, covering not just direct and indirect costs, but the requirement to produce unrestricted surpluses to finance reserves, working capital and funds for innovation and development. Most organisations are also attempting to diversify income by targeting major donors, trusts and foundations, a strategy that cannot work for all of them.

4.2 Property investment:
Most of the loans we looked at were part of a bigger financial package, which the charities had assembled themselves, which comprised not only loans, but also multiple grants and contracts. In many cases the loans and other kinds of finance were interdependent, leading to a race to secure the loan in order to not lose a grant or vice versa. We were not convinced in every case that either the charity or its investors had sufficiently interrogated the wisdom of purchasing a property or taking on debt to redevelop it. One incoming CEO described ‘the burden of inheriting the debt.’

4.3 Lack of familiarity with charities
Positive relationships could be undermined by lenders who quickly became anxious about charity finances, often unnecessarily, because they were unfamiliar with the state of uncertainty that is a daily reality for many small, local charities: While we found a general lack of understanding about charity approaches to reserves, some charities felt that their lender had a good grasp: ‘They understand that we, as small organisations don’t have the cash flow or reserves to wait [for funding]’.

4.4 Distinction between good transactions and good relationships
Some investors concentrated on good transactions: they built supportive, interested relationships around their social investment transactions over the short term. What charities mean by good relationships is an investor that understands and supports their social purpose and wants a long-term relationship that will focus on delivering on mission as well as financial viability. As one charity that holds such a relationship with an investor put it: ‘Whatever we do, we always talk it through with them’. Having an ongoing relationship with a social investor means that the charity can move fast if they need further investment. Charities thought this was important given the number that had needed investment fast because of a cash-flow or property crisis. Having the support of an institution long term was more important to the charities than having the same person to deal with during the transaction (although the latter was appreciated where it had occurred). The more transactional approach may be reinforced by the kinds of short term funding opportunities that are typical in the newer segments of the social investment market with funds tending to open and close rapidly.

5 September 2016
ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW’s regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 145,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

BACKGROUND

The last 20 years has seen considerable growth in the turnover and prominence of the charity sector. The charity sector is taking on roles previously filled by the statutory authorities resulting from the shrinking in the statutory sector and subsequent outsourcing of statutory functions.

This has changed both the image of the sector and the demands on it. The sector now plays a larger role in society and this requires a greater responsibility and professionalism. However, public opinion has not necessarily shifted apace with these developments. Many members of the public expect charities to function with no paid staff and retain a paternalistic view of the status of charities.

There is strong public and government support for the use of volunteers in charities. However, employment legislation dictates that if charities place demands on volunteers’ time and tasks then they become employees. There is therefore a limitation to how much charities can rely on volunteers to undertake their functions.

Charity legislation and accounting requirements can be complex and charities may have to use highly specialised professionals to comply with them. This can be costly and add to the disadvantages faced by small charities. Changes to charity legislation are often rushed through in response to media headlines or for political expediency without consideration of how these changes will impact on the sector.

Given this, our main recommendations are:

1) Governments should take account of the size and complexity of the sector:

   Previous ministerial strategies towards the sector, such as the Big Society, have encouraged the view that charities are small local ventures in which communities can become involved. The real picture of the sector is far more diverse than this with
many large charities taking on complex social functions. Policy makers should ensure that policies directed at the sector should take into account the range and diversity of the sector, and that simple solutions are not always applicable in complex circumstances. Policy should aim to educate the public into understanding the need for professional governance of all charities but especially of the need for professional staff suitable for the size and range of activities of all charities.

2) **Trustees are required to understand and manage complex compliance and legal frameworks:** The charity compliance and legal frameworks are complex and may require specialist skills to interpret them. This has cost implications which can be particularly disproportionate for smaller charities. Complex legislative frameworks, such as the CRS scheme, should not include smaller charities. Professional bodies can assist with this by encouraging their members to volunteer with the sector. ICAEW has already made considerable inroads in this respect. Further outreach is required from regulators to support trustees to understand their obligations and to manage the pressures of managing charities.

3) **Consideration of the sector in proposed legislative changes:** We would encourage governments and law makers to consider the full impact on the sector of proposed changes to legislation. Legislation and policy should not be rushed in response to media headlines or for political expediency. We would specifically urge the Cabinet Office to update the Charities (Accounts and Reports) Regulations 2008 as a matter of priority to remove the unnecessary burden on the sector.

**RESPONSES TO SPECIFIC QUESTIONS**

**The purpose of charities**

1. What is the role and purpose of charities in civic society in England and Wales?

The statutory sector is now commissioning suppliers for many of its services, a considerable number of the organisations tendering for this work are charities. Charities are therefore now very prominent in a wide number of fields such as care services, housing, social service provision, health service and medical research.

In order to thrive in the competitive tendering environment many charities, which may have been started as small local groups, have merged to become large businesses. This is often in conflict with the public perception of charities which often fails to grasp the range of charities and the services they provide.

A 2014 NCVO review into charity pay revealed that whereas fewer than 1% of charities in 2011 paid a member of staff more than £60,000 this was in juxtaposition to the opinions of many of the public respondents. 42% of respondents felt charity executives were paid too much with many respondents going as far to suggest that charity staff should either be
entirely unremunerated or charities should be volunteer centric, with few core staff and managing large numbers of volunteers.

Government and policy makers have a responsibility to ensure the effective running of charity services, to educate the public both in the range and complexity of charity activities and in the need for appropriate staff to undertake these activities.

2. How does the sector benefit from volunteering?

All charities rely on volunteers, in every case to at least the membership of the trustee board. Other charities, depending on their activities, may also use volunteers to assist with the charity’s operations. These can have very different implications for the charity.

2.1 Charity trustees

There remains a confused understanding of the role of charity trustees. Charity trustees are expected to be lay people, with no personal interest, becoming involved in charitable work out of the good of their hearts and for the overall benefit of society. This model fits the benign image that much of the public has of charities, however in reality trustees are faced with rigorous expectations of governance which sits in sharp contrast to this image.

The compliance, accounting and legislation affecting charities is complex, and requires specialist legal and accounting knowledge to understand and remain abreast of this. Charity trustees are expected to at least possess these skills or be able to generate a means by which they can identify any lack of them. This obligation may not fit well with the perceived pool of available charity trustees being well intentioned lay people.

2.2 Charity volunteers

Many charities rely on volunteers to assist with the running of their charity. However, again this can be a complex area which does not always meet the needs of all charities, for example;

- In order to legally qualify as a volunteer a charity cannot insist a volunteer carries out specific functions or dedicates set hours to the work. No exemption from the legislation defining employment exists for charity volunteers. This therefore limits the reliability charities can legally place on volunteers and in certain cases increases the demand on charity resources managing the uncertainty around this.

- The uncertainty of volunteers’ reliability can cost charities additional resources, for example fees for DBS checks, induction training and overall management of volunteers. Given the limitations on the demands charities can place on volunteers’ time and that volunteers are free to leave when they wish, not all volunteering placements benefit charities.

- Volunteers from the community at large are not always a suitable source for certain charity functions. For example volunteers may be required to have specific skills or
knowledge, clear examples of this are volunteers required to give tax advice, medical support or animal husbandry.

3. How can these challenges be overcome?

3.1 ICAEW members are prepared to volunteer where they perceive there is a good cause.

However, there are some obstacles to be overcome;

- The lack of financial skills on a committee of trustees often means that our members are assigned responsibility for the finances of a charity. We encourage our members to ensure they understand the financial requirements of charities. This will then enable them to provide appropriate support to fellow trustees to ensure the board manages the finances of the charity jointly.

- Professionals may find the search for a suitable placement and suitable support challenging, especially if they are coming from a commercial background and may have limited professional experience of the sector.

- Professional bodies can introduce barriers, such as requirements to have professional indemnity insurance for all work whether or not fees are charged.

ICAEW has made considerable inroads to address these problems;

- ICAEW has a specialist website, www.icaewvolunteers.com aimed specifically at chartered accountants looking for volunteering opportunities. The site is free for charities to advertise and free to join to search for roles. Since its inception in 2014 the site has posted in excess of 3,400 volunteering roles and recruited in excess of 3,000 registered volunteers.

- The ICAEW has a dedicated specialist interest group which members can join which keeps them abreast with developments in accounting, taxation and governance in the sector. The Groups events and networking opportunities allow members to share experiences and explore solutions.

- The ICAEW also provides free professional liability insurance to ICAEW Charity Specialist Interest Group members when they provide pro bono services to UK charities.

We would recommend that governments and policy makers support employers and professional bodies to support the sector by introducing similarly innovative solutions.

Pressures and opportunities

4. What challenges do charities face in trying to fulfil their role in civic society?
Overly complex accounting, taxation and legislative requirements apply to charities. Although charity trustees are encouraged to be lay people it requires specialised professional skills to interpret the charity framework. Legislation is often rushed in, for example in response to media headlines or political short term goals rather than as a considered development in line with the strategy for the sector.

Recent and detrimental examples of this are:

4.1 The Common Reporting Standard (CRS)

The CRS scheme has been introduced to track the financial assets of residents in participating jurisdictions. It is complex legislation and, unlike the Foreign Account Tax Compliance Act, contains no specific exemptions for charities.

There are some charities that will be caught up in this reporting standard. Complying with this legislation will require professional support and have cost implications, both large and small charities may be affected. The impact on the sector may easily outweigh the benefit derived from participating tax authorities and this is therefore likely to be a wasteful use of charity resources.

4.2 The new charity fundraising regulator

Following the death of Olive Cooke a media storm highlighted the fundraising practices of a relatively small number of charities which could put pressure on vulnerable people. This resulted in the introduction of the new charity regulator and fundraising regime, including the proposed fundraising preference service.

All charities must now comply with the regulator. The cost of the regulator is to be met by a levy applied to charities with fundraising expenditure in excess of £500,000, whether or not they had previously been considered to have unethical fundraising practices. The introduction of the fundraising preference service may mean a reduction in charity donations and many charities are anticipating this.

The cost of controlling the bad practices of a few charities is likely to have an adverse effect on all charities, including those which had adhered to former ethical guidance.

4.3 The increase in the audit threshold in England and Wales

In February 2015 the audit threshold for charities in England and Wales was raised to £1m. Charities with annual turnover less than this threshold may be able to apply the lighter touch independent examination to their accounts. This was meant to result in a significant saving in audit fees for the charity sector.

The audit threshold did not rise in Scotland or Northern Ireland meaning that for cross border charities an audit still is required. Furthermore, in response to the increase in size and complexity of charities now entitled to an independent examination, the Charity
Commission tightened up the requirements for independent examiners, thus likely to increase the costs of independent examination to charities.

For the sector the perceived advantage of this rushed piece of legislation may not materialise.

**4.4 The Charities (Accounts and Reporting) Regulations 2008**

The Charities FRS 102 SORP was introduced in January 2015 to comply with UK GAAP. The Charities (Accounts and Reporting) Regulations 2008 are yet to be updated and still refer to the 2005 Charities SORP. Non company charities must prepared accounts in accordance with both the SORP prevailing under UK GAAP and the Regulations.

As the Regulations refer to an a SORP that no longer exists this presents problems for the preparation of the trustees report, disclosures in the accounts, accounting policies and the content of auditors’ and independent examiners’ reports. This has resulted in diverging practices across the sector which undermines the comparability and understanding of non company charity accounts.

Despite the speed with which the audit threshold was raised, this anomaly is yet to be addressed. The disruption from this ongoing irregularity is completely unnecessary and would be resolved by a simple updating of the 2008 regulations.

**4.5 The Apprenticeship Levy**

The Apprenticeship Levy will apply to charities with annual payroll bills in excess of £3m. Although there will be a £15,000 grant to set against the Levy this will still represent a real costs to most charities affected.

Although participating charities will have an account to access for training in reality this is unlikely to be of benefit. Hardly any charities operate apprenticeship schemes to access the credit, the scheme cannot be used for volunteer training or development and the credits cannot be used to set up apprenticeship schemes.

It is unfortunate that the likelihood that this would only represent a cost for charities was not identified at the outset and charities either specifically exempt or, for those wishing to participate, an opt in clause permitted.

There needs to be a fair playing field when new legislation is being drafted that affects charities. The assessment on the sector should be included as part of the legislative review to ensure that the sector is not adversely and disproportionately affected. For example, a review of the proposed CRS legislative framework would have allowed exemptions for charities without damaging the aims of the legislation in collecting tax information across jurisdictions. The legislation as it is proposed will increase costs for charities with little to no benefit from the data collected.

*29 September 2016*
ABOUT US
The Institute of Fundraising is the professional membership body for UK fundraising. Our mission is to support fundraisers, through leadership, representation, standards-setting and education, and we champion and promote fundraising as a career choice. We have over 450 Organisational members who bring in more than £9 billion in income, and over 5,500 Individual members.

ENSURING THE SUSTAINABILITY OF THE CHARITY SECTOR

1. The charity sector makes a huge contribution to society and the economy.

1.1. Voluntary sector organisations make a huge contribution to the UK economy and wider society. They employ 821,000 people and attract 13.8 million regular volunteers.\(^\text{252}\) This is worth an estimated £39 billion (a similar amount to the UK revenue of Tesco), and adds £12.4 billion in Gross Value Added to the UK economy each year.\(^\text{253}\) As a result, charities have an enormous impact on the communities and beneficiaries they serve. For example, charities account for 60% of the cancer research spend in the UK, outweighing government funding, while charities also spend £1.3 billion on medical research, 42% of all medical research in the UK.\(^\text{254}\) Research from CAF shows that 98% of households report to have used at least one charitable service at some point.\(^\text{255}\) The contribution of the voluntary sector is understood and appreciated by the public - when asked, 66% of respondents believed that the charity sector “improves peoples” lives and is socially useful”.\(^\text{256}\)

2. Fundraising is the key to a stronger, more sustainable sector, that can contribute even more.

2.1. The Institute of Fundraising’s vision is of a future where charity sector organisations have the leadership, skills, experience and resources to deliver their services and meet the needs of their beneficiaries. For this to be achieved, and the sector to be sustainable and successful, excellent fundraising is absolutely fundamental.

2.2. The charity sector is founded on the philanthropy and generosity of people who freely give donations to causes they care about. Fundraising is the key that unlocks that individual’s generosity and passion, making the link to a charity that delivers the change in the world that they want to see. As Rob Wilson MP, the Minister for Civil Society, has

\(^{252}\) NCVO UK Civil Society Almanac 2016

\(^{253}\) nfpSynergy, ‘Facts and Figures about the charity sector’, p. 2

\(^{254}\) Ibid. p. 3

\(^{255}\) CAF (2016) Charity Street II

\(^{256}\) YouGov, ‘The past few years’ impact on the charitable sector’
said, “without fundraisers, charities as we know them would not exist”.通过他们的工作， fundraisers bring in over £19 billion per year for good causes.

2.3. Fundraising activities and events are also a positive and engaging way to bring people together, sharing in an organisation’s message, cause or values. This is clear from the high levels of giving in the UK – when asked, 67% had given to charity in the last year, while 42% had given in the last month. The Charities Aid Foundation’s (CAF) World Giving Index 2015 found that the UK is now the most generous nation in Europe, and the sixth most generous country in the world, up from seventh in 2014. 75% of people had donated to charity in the previous year, one of the highest rates anywhere in the world. The international average was 31.5%.

2.4. An investment in fundraising skills and capacity is often the best strategic decision an organisation can make. Research consistently shows that, across the charity sector, for every £1 invested in fundraising, many times that return is then brought in through voluntary income. The IoF’s Organisational members have a return on investment (ROI) ratio of around 5:1 and in the case of International Development charities, for example, £1 of fundraising brought in nearly £6 of additional donations. There is also a ‘spillover effect of fundraising’ which suggests that the efforts of one charity may increase contributions made to other charities with a similar cause or mission.

2.5. Charities want to be able to play a greater role, but they will only be able to do so if they have a sound and sustainable basis on which they can develop. The only thing that can deliver the scale of the resources needed is fundraising, which will lead to more giving, enhanced opportunities for volunteering and civil engagement, and the delivery of more charitable activities.

3. Fundraising can only be successful, effective and sustainable when it is conducted in the best possible way.

3.1. However, fundraising can only be successful, effective and sustainable when it is conducted in a way and manner that builds trust with supporters and results in positive relationships between a charity and its supporters to develop. The vast majority of people who give to charity do so regularly and throughout their lives. Good fundraising is founded on positive engagement and relationships with supporters, not on one off transactions. A strategic and long-term approach is essential to achieve this that puts the supporter at the heart of the activity.

258 NCVO UK Civil Society Almanac 2016
259 CAF Giving Report 2015
260 CAF World Giving Index 2015
261 Backus, P. ‘Should charities spend more on fundraising?’, University of Manchester.
3.2. The events of summer 2015 demonstrated just how important this is. Fundraising was on the front pages, and in the public’s mind, following some cases of bad practice and a wider debate about fundraising techniques and regulation. Opinion polls and surveys showed an impact on the public’s feelings of trust towards charities. While the loyalty of donors has continued, this can and must not be taken for granted. The steps taken to improve the regulation of fundraising, strengthen the Code of Fundraising Practice, re-focus on the role of leadership and governance, are all welcome and needed to continue to drive forward further improvements in fundraising. We have seen the consequences where this goes wrong and see the commitment from charities to ensure it does not do so again.

3.3. We - along with our members - share the Committee’s desire to ensure that this attention on recent bad practice should not undermine the good work done by specific organisations, and the charity sector as a whole. Nor should it stymie the necessary plans and initiatives that are needed for the sector to raise income in the future. If, in some specific cases, poor fundraising was the cause of a problem in public trust, the solution is not for the sector to just stop fundraising, but to improve practice and get high quality fundraising across every single charity – from the very biggest UK-wide and international charities, through to the small and local community groups.

3.4. To achieve this ambition some organisations will need to embrace change, whether in leadership and mindset, investment and diversification, or in practice and activity. We recognise that there will always be a need to support and assist those most affected by change – most likely to be smaller charities with fewer resources and staff - helping them adapt to new practices, to be fully compliant with all regulatory requirements, and also to plan strategically for long-term growth. There is also a need for increased awareness of high standards of fundraising and reassurance of effective regulation of fundraising.

4. Charities are operating in a challenging environment.

4.1. The timing of this call for evidence is particularly appropriate given the pressures that the charity sector is facing; from trying to cope with rising levels of demand following the economic downturn and then through a period of austerity, to looking specifically at the top priorities for a new, reshuffled government, and the future uncertainty of Brexit. However, it is important to recognise that the diversity of the sector means that these pressures or challenges will impact upon charities differently - the varying sizes of organisations and sub-sectors will invariably have different pressure points or view external factors in their own context.

4.2. The future direction of the economy leads to uncertainty, making it hard for charities to plan for the long-term with confidence. For example, the amount of money received through legacies could be impacted if there any significant changes in house prices,
while decisions to make efficiency savings or relocate may lead to a drop in corporate charitable donations. In addition, charities in the UK receive an estimated £200 million from EU funds every year – while this only represents 0.5% of the sector’s income, it will leave a significant gap if it is not replaced. As a result, the need for charities to fundraise may be greater if these existing funding opportunities from current sources are no longer available.

4.3. The past several years have presented considerable financial challenges, particularly for small and medium-sized organisations, which tend to be impacted most from public spending cuts. A Financial Sustainability Review of the Voluntary Sector, carried out in 2015, showed that while the economy has grown since 2012, there will be a projected £4.6 billion annual shortfall in overall sector income by 2018/19. The review also found that smaller charities specifically have not particularly benefited from any recent economic recovery, and have been the worst affected by government spending reductions. This is, for the most part, a consequence of local authorities bearing the brunt of major spending reductions at the beginning of 2010/2011, meaning that those organisations traditionally more reliant on grants and local government funding saw bigger losses of income - in 2015, charities under £1 million had lost around 34-38% of their income from government sources. Research also shows that the impact of this income loss has been uneven across geographic regions and sectors – small and medium-sized organisations in the North East, North West and West Midlands, for example, lost the highest proportion of overall income, and by sector, health, social services and law and advocacy were forced to reduce their spending the most. These organisations need to diversify and grow, and we believe that an increase in financial support for smaller charities to start publicly fundraising would be hugely beneficial to the sector.

5. Many charities lack the resources to meet a continued rise in demand for their services, and are having to reassess how they can be sustainable.

5.1. Spending cuts over recent years have inevitably led to communities across the UK directly feeling the impact - as a result we have seen an increased number of people accessing services from charities for support. In the 2016 instalment of our annual research - Managing in the New Normal - 65% of respondents said that they had experienced an increase in demand for their services. One quarter of those said they did not have the resources to meet that rising demand.

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263 Kay, L. ‘Charities would lose £200m in funding from Brexit, says pro-EU campaign’, Civil Society
265 Ibid. p. 15
266 NCVO and Lloyds Bank Foundation (2016) Navigating Change, p. 3
267 NCVO (2016) The Road Ahead, pp. 18-19
Institute of Fundraising — Written evidence (CHA0119)

5.2. Charities are working hard to meet this demand, despite the challenging environment outlined above. However, unless these organisations can work sustainably they will not be able to continue to meet these needs in the future, and if they are less able to deliver services then more pressure will be put on public services and other organisations. The sustainability of one organisation can have a domino effect on others - the multiplier effects of increased challenges and demand across the sector need to be avoided.

5.3. Charities have taken steps to adapt to this environment, and reassess how they can be sustainable. More charities intend to diversify their income over the next 12 months than last year – primarily through fundraising in new areas and increasing income from existing areas. While there is no one ‘silver bullet’ to address the challenges there is a clear strategic decision that is more likely than any other to deliver the long-term results needed: an investment in excellent fundraising. Continuing to nurture positive relationships with loyal supporters, while reaching new donors, diversifying fundraising activity, making the most of digital opportunities and innovating will all be vital for individual charities – and the sector as a whole – to succeed in meeting the demand for charity services now and in the future. However, many charities, most in need of financial support and resilience are often the least well equipped to be able to benefit from starting and expanding their public fundraising activity. **We would like to see greater financial support to these charities to help them learn from best practice, and reach out to the public to support their cause.**

6. Longer term social changes require innovation, particularly in the digital arena.

6.1. Against this political and economic backdrop, longer term social changes are bound to test and shift the basic assumptions on which the charity sector works.269 *The Commission on the Voluntary Sector and Ageing* described the demographic change of an ageing population in the UK as a ‘seismic shift’ – by 2033, nearly a quarter of the UK population will be 65 or over.270 On top of this, we live in a rapidly evolving world, where technological advances are changing the way we communicate, make payments and deliver services. Digital is now a part of everything, and that presents new and different challenges for charities.

6.2. That said, technology - until now - has played a somewhat limited role in fundraising and the wider charity sector compared to other industries. The Lloyds Bank *UK Business Digital Index* measures the use of, and attitudes towards, digital technology among small businesses and charities. This year’s report (2015) found that the charity sector in particular is being left behind in the adoption of digital, and that 58% of charities are without basic digital skills compared to 23% of small and medium-sized enterprises

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269 NPC (2016) *Boldness in times of change*, p. 10
270 Ibid.
(SMEs). There is certainly more that can be done. The majority of organisations lack the resources to reap the full opportunities presented by changes in technology: they have small budgets and are without the required expertise and equipment.

6.3. While it may be difficult for some charities, the opportunities of innovating and embracing new technology are apparent: there are new and different ways to communicate with both supporters and beneficiaries, whether that is providing information about access to services or making it easier for the public to connect with, and freely donate to, the causes they care about. It is clear there is real scope to support charities in developing their digital capabilities. Charities are also, naturally, more risk averse. There is also a lack of strategic approach from funders, investors, the tech sector, and Government. A concentrated effort to support charities to innovate and embed new technology and digital activity is needed.

7. How can the sector meet the challenges faced and continue to make a valued impact?

7.1. The voluntary sector is remarkable in its flexibility and resilience. Organisations have adapted, innovations are found in service delivery and ways of working, and the dedication, commitment, and passion of staff and volunteers is extraordinary. However, doing ‘more for less’ can only be a short-term strategy to cope with immediate challenges, not a strategy for sustainable long term growth.

7.2. There is a shared responsibility help create the environment that will enable and support the full range of the charity sector to succeed. Infrastructure bodies, including the Institute of Fundraising, have a key role to play and we will continue to support charities and fundraisers to reach high standards and deliver excellent fundraising activities.

7.3. We believe the time is right to look at strategic interventions and a targeted programme of support which can help charities across the voluntary and community sector to do more. Specifically, an investment in fundraising skills and development is the most likely intervention to bring sustainability and long-term growth to the sector, supporting the whole sector but particularly targeted to those organisations most in need will build and embed changes that will enable charities to do more year on year. This can include:

- More support for best practice and better regulation through:
  - Increasing awareness of high standards of fundraising to the public and reassurance of effective regulation of fundraising;
  - Promoting and funding additional support for trustees, especially smaller charities, to understand and act on their duties around fundraising;

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272 NPC (2016) Boldness in times of change, p. 10
Promoting and supporting training and resources for fundraisers and professional standards in the fundraising sector.

It made easier for the public to freely donate to the charities they support, and maximise the value of those gifts by:

- Improving and expanding legacy giving by encouraging people to leave a charitable gift in their Will;
- Improving the gift aid system, especially for smaller charities, by making sure that gift aid is able to apply to all forms of donations and reviewing corporate gift aid to ensure benefits to charities are maximised;
- Helping charities to make the most of digital opportunities and technological development to reach new supporters and continue to nurture relationships with current ones.

An increase in financial support for smaller charities to start publicly fundraising

- Increase financial support for smaller charities to access fundraising training as a means of strengthening and diversifying their revenues;
- Set up a ‘how to fundraise hotline’ to support smaller charities with advice on how to start fundraising

5 September 2016
Question 1: Purpose of Charities

1. Public perception of spending on income generation poses a significant risk to a charity’s reputation; this in turn threatens the future sustainability of generating funds. Return on investment of fundraising misses the point that fundraising is more than just raising money, but is a critical part of raising awareness of the charity and its aims as well as customer engagement more generally. Increasing public awareness of the sector is, after all, crucial to its success.

2. The sector and Charity Commission should explain to the public that there are many different types of charities all doing their bit for the good of UK PLC and not all of these are providing frontline services. Some may be solely (or partly) engaged in policy making, lobbying and research to name a few of the exiting variations. Better promotion and publicity may help to remove some of the misconceptions that exist about the sector and how it spends its income.

3. Over the years governments have continued to shift more of the burden of service delivery to charities and in some cases charities are even viewed as the fourth Emergency Service. Some in the sector have an over-reliance on government grants and contracts. The main issue is that these are often short term in nature and create a volatile environment in which charities have to exist, and this can lead to this being conveyed onto the service users involved. This situation may have changed the public’s perception of the sector as a whole and what it is there to deliver.

4. Charities should not be plugging the service gaps in statutory provision but this is often the case following the cut backs on local authorities in particular. An example of this is where charities plug the gap on employment support because the DWP offers no service for this any longer.

5. Medium sized charities can fall between two stalls. Small charities tend to be funded at a local level. Larger charities use their income and size to appeal to a wide audience. Those in between struggle accordingly.

6. Volunteering remains key to the sector and means the sector can extend to reach more beneficiaries. However, volunteering needs to be valuable for the volunteer as well as the charity for it to work best. This becomes problematical where volunteers effectively replace or do the job of paid staff, such as administration within offices. We believe that the sector needs to become more innovative and encourage more beneficiaries to become volunteers to increase the peer to peer support provided.

7. There needs to be more dynamism around volunteering opportunities such as internships for young people or specific project based volunteering to increase a sense of achievement. Charities need to invest in volunteer training, support and performance management as well as referring on volunteers to other charities where no realistic opportunity exists. The sector needs to move away from taking a paternalistic view of
volunteering and move towards encouraging choice, engagement and innovation to keep up to date with the changing demographics of volunteering. The sector faces broad challenges around funding, capability, accountability and assurance having some sort of sector direction and guidance on how these can be managed would be useful and more likely to develop a sustainable sector.

8. Encouraging charities of all sizes to co-design services with service users should be encouraged so that services keep pace with the service user requirements and the way they live their lives. Each generation is different so a good representation of ‘Members’ should be canvassed and included in policy decision making of service.

Question 2: Pressures and opportunities

1. Charities have to balance expectations. For example, money has to be used to achieve charitable aims and the public perceive this as spending almost all of it on the good causes the charity was set up to action. But charities are also expected to behave in a business-like way and to stand above reproach. Not easy when there is little money perceived to be allocated for this.

2. There is a constant tension between ‘being a business’ and ‘being a charity’. The two are not mutually exclusive but are not the same either.

3. Charities that have an over-reliance on a single income stream are especially vulnerable to a lack of financial stability and should be encouraged and supported to diversify within the remit of their charitable aims.

4. It should also be noted that certain Local Authority contracts are over onerous on risk transfer adding to the burden on charities who often cannot afford or do not recognise the need to obtain legal advice. The circumstances will vary but include some charities being afraid of losing the opportunity, whilst others lack the understanding of contract negotiations to recognise that ‘pushing back’ is a usual process to employ rather than just accepting all terms imposed.

5. More and more people now than ever before would consider suing a charity – including employees, volunteers and the general public. The Charity Commission could play an important role in sharing learning about why charities are being sued and could develop a lessons learned approach to enable the sector to learn how to avoid this happening.

6. Government grants are slowly increasing transparency and accountability within the sector. Whilst this is a good thing the problem is that the increased demands for governance and compliance results in charities spending money on governance and compliance that they cannot afford and that detracts from their services. The ‘on-cost’ of governance and compliance is not well understood across the sector and is often duplicated from organisation to organisation in their efforts to comply with requirements.
7. To be a well run organisation money does have to be expended on salaries, governance and leadership. Even a team of volunteers running a charity costs money. The general public don’t always appreciate this. There is no such thing as an entirely free service.

8. The national media are generally unhelpful to the sector. They fail to explain the balance and different pressures on charities but are quick to exploit issues or perceived issues. For example, high paid staff are portrayed as being in some way unethical (taking that much money out of the charity!) and yet if such staff were paid at a lower level than their peers and as a consequence are a lower standard then when they fail to perform fierce criticism will follow. How can a charity win?

9. We should stop apologising for paying CEO’s the market rate. If a CEO manages a £120 million charity made up of different ‘businesses’ it is reasonable that they are paid over £100,000 p.a. The sector needs strong leadership and these leaders needs to be motivated and remunerated accordingly. Government needs to support the sector and explain this to the public.

10. There is a lot of duplication across the sector. Thousands of small and medium sized charities exist in isolation despite delivering similar outcomes. This is not to say that all do not have an important part to play within their local communities – it is rather that we need to find a way to share resources perhaps from larger charities out to smaller charities to reduce duplication of effort and expenditure. Perhaps some form of Grouping could be considered with a ‘Group’ having access to central services and looking towards more collaboration, consistency, knowledge sharing and funding to ensure money is not wasted. Government and the Charity Commission have a role to play in encouraging this – perhaps highlighting where this has worked within published case studies, and encouraging mergers and acquisitions where appropriate.

11. The new Telephone Preference Service (TPS) regime and regulator are also adding cost to charities. Money will flow away from the charity’s aims accordingly and again there has been little explanation of this to the public. Government should take this up perhaps through the Charity Commission and explain what is happening in response to calls for change from the public.

12. In addition the TPS regime will cut charities off from millions of donors who haven’t opted in as there was historically no need to do that. This will inevitably impact fundraising and/or increase costs as each donor has to be contacted in order for them to opt in. Whilst the vulnerable definitely require additional protection to match the additional duty of care owed to them perhaps a route like the Utility Companies might work whereby this is noted down and contact changed accordingly or desisted entirely. Given the severe impact of the new regime we believe that the bulk of customers should be able to self select whether they opt out rather than it being assumed that everyone wants to opt out.

**Question 3: Innovation**
1. The digital world offers great opportunities that are not based on a charity’s income size. For example, a small but digitally well connected charity can develop campaigns that go viral.

2. To date the most popular viral campaigns seem to be started by individual members of the public rather than the charity itself. Perhaps there is a link between the successful public initiatives and the way social media is largely about the individual?

3. When ideas do go viral it can lead to different risk exposures for the charity especially in terms of being deluged by donations and managing online income generation. The risk here is potentially huge as a significant rise in income can lead to strategic scope creep that in turn could lead to attention being diverted from core strategic aims and then criticism that the charity lacks focus.

4. Charities can lag behind on digital and this can lead to them missing the opportunities that exist. Often this is because when charities expand rapidly the IT infrastructure cannot keep pace and the further charities fall behind the bigger the cost and effort it appears to become ‘up to date’. This can lead to a lack of investment or reluctance to spend the charity’s income on IT. However, encouraging spending on this area is vital as not keeping pace could lead to being crippled in the future and being unable to sustain the charity.

5. Technology Companies should be encouraged to work pro bono (as part of their CSR as solicitors do) or to discount more digital infrastructure and software to the sector. The government could facilitate relations, offer tax incentives, and help charities to understand what is out there. An example of work that has been undertaken already would be the New Philanthropy Capital organisation under the Inspiring Impact programme.

**Question 4: Governance and leadership**

1. Risk management should be at the core of the operation and is not size dependent. When a charity sets strategy surely they should consider what could stop it achieving its objectives. Using the IRM Getting Started process (based on ISO31000) should provide the structure and logical thinking to foresee the majority of problems and to have contingency plans in place to cope with high severity, low likelihood risks.

2. For INGOs and charities who work overseas trustees and senior managers are often selected for their specific technical skills and knowledge but who may have little or no practical experience of implementing programmes overseas and how the technical skills need to be adjusted due to the local culture and environment.

3. It is important that risk management is not pigeon holed into Health & Safety, Security or other operational risk silo but rather is considered from the strategic perspective initially. We are aware that some charities prioritise one operational aspect without having considered strategic risks first and this may lead to money being spent unnecessarily or not in line with the ‘real’ priorities.
4. Training is available from many sources to suit all pockets. These could be reading the Getting Started and CC26 information, through to Foundations of Risk Management (FORM) and other training available through the IRM. Professional Advisors to the sector also offer a full range some included within services and some requiring additional payments.

5. However, the IRM Charities SIG notes that it is unusual for risk to be practiced and embedded within the sector – and the same could be said of the private sector. The problem is caused by a number of factors including:
   - A perception that risk management is a separate discipline
   - Viewing risk management as a tick box exercise that once ticked can be set aside
   - Failing to appreciate that risk management = business management

Small and medium sized charities in particular are especially vulnerable to these problems.

Question 5: Governance and leadership

1. Trustees and senior leadership teams need to have an understanding of risk management thinking and practices so that they can use it to gain assurance that it is undertaken within the organisation and to set the risk appetite for the organisation. Greater transparency about a trustee’s role with regards to managing strategic and financial risk should be a part of sector regulation for medium and large charities at least. Many trustees are unaware of their liabilities – we appreciate that CC26 sets this out, but it has fallen on deaf ears and needs to be reinforced. We suggest this should be considered and consulted on as part of future sector regulation.

2. Whilst it’s more likely that trustees of larger charities do understand risk management it could be difficult to build understanding amongst small to medium sized charities. These may have less time and appetite for training. We must remember that many trustees could be parents of or beneficiaries with little or no business acumen or training – just people with immense commitment and goodwill for the charity and its aims.

3. In addition there is the broader issue of merging robust strategic planning with risk management – this would help reduce scope creep, clarify objectives, and increase resilience and sustainability.

4. How this is achieved is the tricky part but needs to focus on charities of all sizes and especially the 95% of charities with an income below £500,000.
   a. The Charity Commission could make certain reading compulsory and test understanding (as do many financial services firms as part of their FCA regulatory compliance). This would need to be repeated annually.
   b. A specialist training programme could be developed by the IRM Charities SIG for the sector – which could address the need for risk management to be embedded within successful strategic planning. This could be aligned with CC26 and it is especially important that other documents such as the European Independent
Security Forum’s security audit which will all help organisations to manage specific risks within their risk management approach.

C. The latest SORP has increased the need for reporting on risk (for charities with an income of over £500,000) in terms of detailing key risks and what is being done to manage them in the annual report and accounts. Scrutiny of this is required.

D. The trustee board should delegate ‘risk management’ to one trustee irrespective of the size of the charity. This trustee will be responsible for understanding what risk management is all about, what exposures the charity faces to achieving its strategy, and who can then educate his fellow trustees from a position of knowledge and interest.

E. An internal risk structure needs to be established to facilitate risk management and ensure that risks and their management are kept up to date. This needs to be established so that information flows within the organisation both upwards and downwards as risks change and new risks emerge. If risk scores do not change then this may in itself be a cause for concern. The ideal is that this is real-time but if not (and perhaps to start with) it needs to be on a monthly basis.

F. Sector buddying/peer reviewing could support assurance potentially or even go wider to public sector/government buddying where there is a lack of expertise and capability. This could help build interest, capacity and understanding with smaller charities in particular.

5. Communication and internal training to increase understanding of the process and why it is so beneficial to the organisation need to be implemented for all trustees, staff and regular volunteers. This needs to be aligned to be relevant to those being educated.

Question 6: Accountability

1. A good risk management process is key for an organisation’s accountability. To ensure funds are being sent appropriately organisations need to demonstrate which risks they are facing that may stop them achieving their objectives (as per ISO31000) such as staff safety and then decide which management measures to take and the associated costs.

2. Accountability can be achieved through better transparency across finances, service, outcomes and value for money. The current annual review generally skirts around these issues. A better approach could be case studies involving actual or anonymised beneficiaries.

3. Unethical practices do need to have strong consequences not only for the charity but potentially for individuals as well.

4. There also needs to be more clarification and accountability around the number of customers supported. An example of this is Kids Company who claimed to be working with 36,000 children but could only prove and evidence around 1,500. Maintaining robust records for assurance and maintaining quality of standards needs to be considered further in terms of accountability. This could be driven by government
funding requirements or regulation. This is a particular area where left unaddressed erodes trust of the sector by the public.

5. There is often a lack of contingency planning (a natural part of risk management) undertaken which could be the difference between a charity surviving a shock and becoming more resilient.

**Question 7: Resource Management**

1. Probably requires a combination of stick and carrot. Regulation may be required to kick start the process whilst also highlighting the benefits to the organisation of undertaking risk management. Successes from the sector should be highlighted – including small successes that demonstrate a path is available irrespective of size and the immediate benefits to the organisation.

2. A significant challenge is where charities take on service delivery previously provided by local government at a rate below which it is possible to deliver the service. In effect there are undoubtedly situations where charities are not being paid enough to deliver the service. This is only tolerable where the charity is able to raise funds to cover the gap otherwise it puts itself and its employees in a precarious position. Government has to accept that overheads are part of full cost recovery. Equally providing some sustainability for the service (3 rather than 1 year contracts for example) and ensuring transition plans are in place within the charity for when the contract ends would also alleviate some of the challenges.

3. More training and information is probably needed for charities competing for tenders so the charity can accurately forecast financially and also examine the risks while evaluating whether to compete for a tender. This highlights the importance of encouraging pan-charity tendering so that holistic services can be provided more efficiently and the need to encourage more sector brokering where one charity sub contracts out to grass root charities that may not have the size or resources to actually respond to the tender.

**Question 8: The role of Government**

We repeat a number of previous points that also respond to this question.

2.5 More and more people now than ever before would consider suing a charity – including employees, volunteers and the general public. The Charity Commission could play an important role in sharing learning about why charities are being sued and could develop a lessons learned approach to enable the sector to learn how to avoid this happening.

2.6 Government grants are slowly increasing transparency and accountability within the sector. Whilst this is a good thing, the problem is that increased demands for governance and compliance results in charities spending money on governance and compliance that they cannot afford and that detracts from their services. The ‘on-cost’ of governance and
Institute of Risk Management (IRM) — Written evidence (CHA0039)

compliance is not well understood and is often duplicated from organisation to organisation in their efforts to comply with requirements.

2.3 Charities that have an over-reliance on a single income stream are especially vulnerable to a lack of financial stability and should be encouraged and supported to diversify within the remit of their charitable aims.

2.4 It should also be noted that certain Local Authority contracts are over onerous on risk transfer adding to the burden on charities who often cannot afford or do not recognise the need to obtain legal advice. The circumstances will vary but include some charities being afraid of losing the opportunity, whilst others lack the understanding of contract negotiations to recognise that ‘pushing back’ is a usual process to employ rather than just accepting all terms imposed.

2.9 We should stop apologising for paying CEO’s the market rate. If a CEO manages a £120 million charity made up of different ‘businesses’ it is reasonable that they are paid over £100,000 p.a. The sector needs strong leadership and these leaders needs to be motivated and remunerated accordingly. Government needs to support the sector and explain this to the public.

1.2 The sector and Charity Commission should explain to the public that there are many different types of charities all doing their bit for the good of UK PLC and not all of these are providing frontline services. Some may be solely (or partly) engaged in policy making, lobbying and research to name a few of the exiting variations. Better promotion and publicity may help to remove some of the misconceptions that exist about the sector and how it spends its income.

2.10 There is a lot of duplication across the sector. Thousands of small and medium sized charities exist in isolation despite delivering similar outcomes. This is not to say that all do not have an important part to play within their local communities – it is rather that we need to find a way to share resources perhaps from larger charities out to smaller charities to reduce duplication of effort and expenditure. Perhaps some form of Grouping could be considered with a ‘Group’ having access to central services and looking towards more collaboration, consistency, knowledge sharing and funding to ensure money is not wasted. Government and the Charity Commission have a role to play in encouraging this – perhaps highlighting where this has worked within published case studies, and encouraging mergers and acquisitions where appropriate.

2.11 The new Telephone Preference Service (TPS) regime and regulator are also adding cost to charities. Money will flow away from the charity’s aims accordingly and again there has been little explanation of this to the public. Government should take this up perhaps through the Charity Commission and explain what is happening in response to calls for change from the public.

2.12 In addition the TPS regime will cut charities off from millions of donors who haven’t opted in as there was historically no need to do that. This will inevitably impact fundraising and/or increase costs as each donor has to be contacted in order for them to opt in. Whilst the vulnerable definitely require additional protection to match the additional duty of care
owed to them perhaps a route like the Utility Companies might work whereby this is noted down and contact changed accordingly or desisted entirely. Given the severe impact of the new regime we believe that the bulk of customers should be able to self select whether they opt out rather than it being assumed that everyone wants to opt out.

3.3 Charities can lag behind on digital and this can lead to them missing the opportunities that exist. Often this is because when charities expand rapidly the IT infrastructure cannot keep pace and the further charities fall behind the bigger the cost and effort it appears to become ‘up to date’. This can lead to a lack of investment or reluctance to spend the charity’s income on IT. However, encouraging spending on this area is vital as not keeping pace could lead to being crippled in the future and being unable to sustain the charity.

3.4 Technology Companies should be encouraged to work pro bono (as part of their CSR as solicitors do) or to discount more digital infrastructure and software to the sector. The government could facilitate relations, offer tax incentives, and help charities to understand what is out there. An example of work that has been undertaken already would be the New Philanthropy Capital organisation under the Inspiring Impact programme.

5.1 Trustees and senior leadership teams should all have to have an understanding of risk management thinking and practices so that they can use it to gain assurance that it is undertaken within the organisation and to set the risk appetite for the organisation. Greater transparency about a trustee’s role with regards to managing strategic and financial risk should be a part of sector regulation for medium and large charities at least. Many trustees are unaware of what they are liable for – we appreciate that CC26 sets this out but it has fallen on deaf ears and needs to be reinforced. We suggest this should be considered and consulted on as part of future sector regulation.

5.2 Whilst it’s more likely that trustees of larger charities do understand risk management it could be difficult to build understanding amongst small to medium sized charities. These may have less time and appetite for training. We must remember that many trustees could be parents of or beneficiaries with little or no business acumen or training – just people with immense commitment and goodwill for the charity and its aims.

6.4 There also needs to be more clarification and accountability around the number of customers supported. An example of this is Kids Company who claimed to be working with 36,000 children but could only prove and evidence around 1,500. Maintaining robust records for assurance and maintaining quality of standards need to be considered further in terms of accountability. This could be driven by government funding requirements or regulation. This is a particular area where left unaddressed erodes trust of the sector by the public.

7.1 Probably requires a combination of stick and carrot. Regulation may well be required to kick start the process whilst also highlighting the benefits to the organisation of undertaking risk management. Successes from the sector should be highlighted – including small successes that demonstrate a path is available irrespective of size and the immediate benefits to the organisation.
7.2 A significant challenge is where charities take on service delivery previously provided by local government at a rate below which it is possible to deliver the service. In effect there are undoubtedly situations where charities are not being paid enough to deliver the service. This is only tolerable where the charity is able to raise funds to cover the gap otherwise it puts itself and its employees in a precarious position. Government has to accept that overheads are part of full cost recovery. Equally providing some sustainability for the service (3 rather than 1 year contracts for example) and ensuring transition plans are in place within the charity for when the contract ends would also alleviate some of the challenges.
7.3 More training and information is probably needed for charities competing for tenders so the charity can accurately forecast financially and also examine the risks while evaluating whether to compete for a tender. This highlights the importance of encouraging pan-charity tendering so that holistic services can be provided more efficiently and the need to encourage more sector brokering where one charity sub contracts out to grass root charities that may not have the size or resources to actually respond to the tender.

And in addition we would like to add:

1. The Charity Commission should provide access to a raft of suitable and useful publications such as the various ISO standards, IRM Charities SIG, Charity Finance Group and others. If Charity Commission also show cases such work it is more likely to be picked up and used by charities.

2. The government needs to consider how best to flag that whilst potential reputation damage is an awful consequence for many charities, there remain legal exposures that risk management can help to reduce. For example, the breach of the Duty of Care owed by a charity to employees, volunteers, and others would cause legal problems as well as damaging reputation. We do not believe that trustees and management always understand how significant a risk the latter is.

31 August 2016
Mr Len Jones — Written evidence (CHA0004)

1. Introduction

I write having had several years experience in the Charity Sector ranging from Start ups, mergers and being a treasurer of several Charities and not for profit organisations. I am a Chartered Accountant and have a post graduate degree in Charity Accounting and Financial Administration (Cass2013). I have worked with the ICAEW and Charity Commission regarding research into the way Charities view strategic planning. I am also currently Chairman of the Association of MBA’s a charity dedicated to promoting post graduate business education. The views contained in this submission are my personal observations and not representative of any organisation with which I have been involved. I therefore make the following comments

2. Charity Boards have a peculiar mix of enthusiastic Trustees who may or may not have appropriate skills and lack financial literacy and knowledge about sustainable business models. Where they are recruited for such specialist skills then the line between oversight and operations becomes blurred, especially in smaller Charities. The issue is therefore one of having operational personnel suitably skilled to carry out the Trustees wishes.

3. The Board of Trustees need to understand the fixed cost base of the Charity and the impact of variations in Revenue and the ability to fund the operations of the Charity whilst at the same time not compromising on service delivery. In short, financial literacy is required to ensure that the cost base is appropriate for the scale of the operations and the intended level of service delivery. This is especially relevant when funding dries up and contracts for service delivery are negotiated. It is not always possible to lay off employees at nil cost to the Charity.

4. This leads me to conclude that the current guidelines of the Charity Commission on Reserves Policy does not give sufficient advice. Rather than advise that reserves should cover operational costs for a period of time (usually six months) Reserves should be sufficient so that an orderly closure of Charities can be undertaken if, in the view of the Trustee, the Charitable model is no longer sustainable. This will include not just costs of redundancies but also break costs of leases, early terminations of long term contracts and generally costs of closure, very much like a Bank would view a lending proposition and look at the Risk element of continuing to trade creating losses and drains on reserves. The Committee may also take a view that these reserves be ring fenced, thus providing a measure of security for key stakeholders.

5. The consequence of point 4 above also leads me to conclude that the Trustees Annual Report should perhaps be extended to cover a statement by the Trustees that expands the
current reserve policy disclosure requirement and states what the closure costs of the charity should be which would include provisions for redundancies etc as outlined in 4 above.

6. That is why knowledge of sustainability and financial literacy should be a key skill for Boards of Trustees. The role of Treasurer then, should come under greater scrutiny and perhaps be considered on a more professional basis. (i.e having a paid Trustee with appropriate skills and expertise).

2 August 2016
Summary

This submission to the House of Lords Select Committee on Charities is focused on small and medium-sized charities, those with an income between £25,000 and £1m and draws on the experiences of Lloyds Bank Foundation for England and Wales’ grantees. The Select Committee should take a similar focus in recognition of the scale of the small and medium-sized charity sector and the challenges they face. Charities with an income of less than £1m constitute 97% of the total charity sector\textsuperscript{273}, yet attention, processes and income are typically geared towards the dominant 3%. This has to change if the benefit brought by small but mighty local organisations is to be maximised.

Small and medium-sized charities are critical to civic society. Embedded in the communities they serve, these charities understand local issues and how best to meet need. They deliver flexible, holistic, person-centred services in a way that Government or larger providers never could. They typically develop in response to a local problem, engaged in tackling it both before and after any statutory money is on the table. They are dependent on an army of volunteers supplementing a small number of paid staff and bring social value far beyond the confines of any contracts that may be on offer.

Yet small and medium-sized charities face a raft of challenges which threaten their ability to respond to needs, primarily:

- **Funding is becoming increasingly difficult to secure**: Government funding to small and medium-sized charities has seen decreases of up to 44% since 2008/09\textsuperscript{274}
- **Commissioning processes put smaller charities at an unfair disadvantage**: Any Government funding that is available is increasingly allocated through competitive contracts. The processes involved often exclude smaller organisations from the market place
- **Demand is rising**: Across the social welfare causes that the Foundation supports, grantees report increases in demand for their services, both in terms of absolute numbers and the complexity of issues that individuals accessing their services face
- **Trustees are being marginalised**: New scrutiny over trustee roles risks making it even harder for small and medium-sized charities to recruit trustees, which are often critical to the day-to-day running of the charity as well as providing wider oversight.
- **Voices are being marginalised**: The civic space in which small and medium-sized charities are able to get their voices heard is narrowing, with increasing threats to advocacy and the influence of the Office of Civil Society potentially decreasing.

Action needs to be taken to ensure that small and medium-sized charities can thrive, not just survive. These organisations are essential to achieving Government’s objective to benefit “all of

\textsuperscript{273} \textit{UK Civil Society Almanac}, NCVO, 2016

\textsuperscript{274} \textit{Navigating Change: An analysis of financial trends for small and medium-sized charities}, NCVO, 2016
our citizens, every one of us, whoever we are and wherever we’re from.”275 They are the eyes and ears on the ground that can feed into and direct Government work and they are responding to often severe needs in real-time in a way that Government itself never could without them. If Government is to work for every one of us, we need to make sure it works for small and medium-sized charities because these are the beating heart of a thriving society.

1.0 Introduction

1.1 Lloyds Bank Foundation for England and Wales is one of the leading community grant makers. An independent registered charity funded by the profits of Lloyds Banking Group, the Foundation invests in charities supporting people to break out of disadvantage at critical points in their lives, and promotes approaches to lasting change. In 2015 the Foundation awarded total funding of £22m, directly supporting 1,765 small and medium-sized charities. This equates to supporting 58,013 individuals facing multiple disadvantage.

Having supported small and medium-sized charities in every region of England and Wales for more than 30 years, the Foundation is built upon the knowledge and experience of locally based charities, with locally based Grant Managers visiting applicants and grantees and providing an avenue for identifying patterns and issues faced by the sector. The Foundation also conducts and commissions research specifically focused on the experiences and concerns of small and medium-sized charities, particularly those with an income between £25,000 and £1m.

2.0 The purpose of charities

2.1.0 What is the role and purpose of charities in civic society in England and Wales? What makes them distinct from other organisations doing similar work?

2.1.1 Lloyds Bank Foundation for England and Wales supports small and medium-sized charities tackling some of the most intractable social issues, from homelessness to abuse and offending to mental health. These charities are at the heart of delivering effective services to individuals at risk and much of their value is intrinsically linked to their size. Grounded in their community, they are trusted, understand local needs, can reach and engage people and communities and provide holistic services which address the root causes of the problems which individuals face. They are flexible and efficient, often offering fantastic leverage with any public money to attract a far higher level of independent and voluntary income and with a core team of staff typically supporting a far higher number of volunteers. They are usually first to identify a problem and will stay engaged in trying to tackle it even when other organisations and services have been cut or have moved on.

2.1.2 Small, local charities are often unique in their desire to remain a local service. While they may want to expand their services to meet local need, they are not driven by a desire to increase market share or move into other geographical areas – they are committed to the area and cause they developed to serve.

275 Statement from the New Prime Minister, Theresa May, 2016
2.1.3 Together, these characteristics make small and medium-sized charities distinct from larger charities, Government and businesses. Inherently local, they put service quality and the individual needs of service users at the heart of their services. Unlike larger competitors, they are not prepared to threaten service quality by cutting prices, with grantees reporting that they have not bid for contracts knowing that they would not be able to deliver an effective service at the price available through a contract. Similarly, they are not driven by a head office far removed from the reality on the ground – everything they do is in response to the needs of the individuals they serve. They are often able to employ committed employees who are driven by their desire to address an issue rather than a lucrative pay package and are often able to attract employees with real-life experience relevant to the service they are providing. It is unlikely that similar numbers of larger charities and commercial providers can offer such expertise.

2.1.4 Inevitably, there are some services that larger organisations are well placed to deliver, such as the provision of large scale, generic information or running a national 24 hour helpline. Yet for other services, particularly those supporting individuals facing multiple disadvantage, small and medium-sized charities offer support in a way and at a level that could never be achieved by a multi-million pound organisation.

2.1.5 Part of the reason for their ability to support individuals facing multiple disadvantage is due to small and local charities being particularly innovative in delivering services. Their flexibility enables them to respond to changing needs and provide holistic services that are person-centred and seek to address the range of issues affecting an individual. As a result, these charities are able to avoid the failure demand that hinders too many large and generic services.

2.2.0 How has this changed?
2.2.1 At its most basic understanding, the work that small and medium-sized charities undertake has not changed – they are still responding to needs and providing services that are otherwise overlooked. However, where their role has changed it is largely associated with funding structures and the availability of services more widely. Many charities have been forced to compete for contracts in commissioning systems that dictate which services must be delivered, where and how. The impact of this is significant because it lessens the value that small and medium-sized charities can bring in terms of developing the services that they identify are needed and shaping them to local people’s needs. As one grantee highlighted in research carried out in 2015:

“*The voluntary sector key contribution has always been its ability to see health and social care issues as they begin to emerge and to respond quickly*”

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276 Too Small to Fail: How small and medium-sized charities are adapting to change and challenges, IPPR North, 2016
277 Saving Money by Doing the Right Thing: Why ‘local by default’ must replace ‘diseconomies of scale’, Locality, 2014
2.2.2 At the other end of the spectrum, new charities have developed in response to ever larger contracts becoming available which respond to contracts rather than local need and knowledge. Many of these organisations are driven by market share and do not reflect the values of the thousands of small and medium-sized charities meeting local needs in communities across the country. They are prepared to slash costs to win contracts, with little regard to service quality.

2.2.3 Across the board, there has been a drive to make charities more professional but it is important that charities should always be distinct from businesses. There is a danger that if charities are pushed too far in following business practices, they will lose the very essence that makes them distinct and trusted in their communities.

2.3.0 What role can charities play in community cohesion and civic action?
2.3.1 Small and medium-sized charities are pivotal to community cohesion and civic action in terms of being a centre for community engagement. They are able to do this because of their trusted nature in local communities, with staff and volunteers typically coming from the area in which they work:

“they provide better tailored services and keep the ‘personal touch’ which is extremely important in terms of community and trust.”

2.3.2 While awareness of local charities can be low, they generate high levels of trust, with 70% of people preferring to donate to a small charity rather than a large one. It is this sense of trust that encourages communities to come together around shared aims and objectives.

2.4.0 How does the sector benefit from volunteering?
2.4.1 Volunteers are integral to the running of small and medium sized charities as well as having an important role in society overall - a study by Foster in 2012 showed that the contribution of volunteers to the economy was estimated to be worth around £23.9 billion – 1.5% of GDP – in 2012. Amongst the small and medium-sized charities that Lloyds Bank Foundation awarded grants to in 2015, the average staff to volunteer ratio is that of 1:3 – these charities could not exist without the support of their volunteers. For charities with an income between £25,000 and £50,000, this ratio increases to one employee for every 13 volunteers. These volunteers carry out a range of roles, from trustees to administrators and from fundraisers to service deliverers.

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278 Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities, Lloyds Bank Foundation for England and Wales, 2015
279 Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities, Lloyds Bank Foundation for England and Wales, 2015
280 Small but Vital: Local Charities Matter, TSB, 2016
281 Small is Beautiful: Experimental evidence of donors’ preferences for charities, Economic Letters, 2013
2.4.2 At Lloyds Bank Foundations’ Charity Achievement Awards in 2015, the breadth of volunteering activity was evidenced by entrants to the ‘Valuing Volunteers’ category. As just one example, the Chief Executive of the competition’s winner, Manchester Action on Street Health (MASH), a charity providing support to sex workers in Greater Manchester, described the important role that their volunteers play:

“The volunteers... play an integral role in every aspect of the organisation, from being the first point of contact at the centre to outreach workers in the MASH van and helping to support 900 women across greater Manchester last year.

Most of the volunteers stay for at least two years within the service and are appreciated for their wide range of skills and the fresh perspective they bring to the paid team. The volunteers allow that team to reach a far greater number of service users than they otherwise could, and they also strive to raise the profile of MASH in their daily lives and to help influence attitudes towards sex workers....

For the people they support, volunteers are sometimes the only people by whom they feel cared for. One former sex worker said, “When I was in hospital they were the only ones that would come to see me and they have been there through all of my important milestones.”

2.4.3 Volunteers help to build trust in communities, often volunteering in the communities where they live. This is further built upon where they have real life experience of the cause they are supporting – as is the case with many of the charities the Foundation supports. Yet it is important to remember that these volunteers do not come without cost – volunteers need to be managed and supported.

2.4.4 The resources to invest in volunteers is important both within charities directly and within brokering arrangements. Lloyds Bank Foundation is supporting members of staff within Lloyds Banking Group to act as mentors with more than 200 of the charities receiving funding from Lloyds Bank Foundation through its Enhance programme. Establishing these relationships needs tailored support, and the dedicated input of specific members of staff. Unfortunately, many local brokering volunteering opportunities across the sector have disappeared due to a lack of investment in local infrastructure.

2.5.0 How has the status of volunteers changed?
2.5.1 A number of small and medium-sized charities have become increasingly dependent on volunteers due to funding cuts. Many organisations have seen statutory grants in particular significantly reduce if not disappear, with contracts increasingly awarded to larger organisations. At the Foundation grantees report having to reduce their head count as a result of funding cuts, often relying on one paid member of staff, supported by volunteers. For example, one grantee supporting individuals with mental health issues has moved from 12 full time employees to 1, due to funding cuts. The charity is reliant on 8 regular volunteers to run the charity. This inevitably has an impact on the services that the charity can deliver.
2.6.0 **What challenges do charities face in trying to fulfil their role in civic society?**

2.6.1 As detailed throughout this paper, small and medium-sized charities face a range of resource challenges, both in terms of funding, capacity and capabilities. There are further challenges that are impacting upon small and medium-sized charities, such as the declining space for civic society as whole – this is most recently demonstrated in the move of the Office for Civil Society from the Cabinet Office to DCMS. The role of charities in civic society needs to be recognised across Government – Cabinet Office’s cross-Governmental agenda made it a more appropriate fit for this. There is a danger that this will lower the influence of the Office for Civil Society and further marginalise the voices of small and medium-sized charities and the individuals they represent.

2.7.0 **How can these challenges be overcome?**

2.7.1 Options for overcoming the challenges facing small and medium-sized charities are discussed throughout this paper. Central to this, has to be funding that works for small and medium-sized charities whilst opening up the opportunities for small and medium-sized charities to have a voice. Core public funding is essential, together with commissioning practices that enable those organisations best able to meet needs to receive funding, no matter what their size.

3.0 **Pressures and opportunities**

3.1.0 **What are the main pressures faced by charities currently, and what impact have these had?**

3.1.1 A survey of Lloyds Bank Foundation grantees in 2015 highlighted that the main challenge facing small and medium-sized charities is funding, as identified by 81% of respondents. This perception is corroborated by figures which show that income to charities with a total income up to £1m saw a reduction in overall income of approximately 13% between 2008/09 and 2012/13. These funding challenges have been compounded by Government funding practices which have increasingly diverted funding to the largest charities. For example research which the Foundation has funded in partnership with NCVO has highlighted that income from Government dropped by up to 38% between 2008/09 and 2012/13 for smaller charities while rising by 38% for the largest. This is of great significance in part due to the higher volatility of smaller charities which are typically reliant on a smaller number of income sources. Charities are facing the funding challenges at the same time as more than half are responding to increases in demand for services, both in terms of numbers and complexity.

3.1.2 Commissioning and procurement practices are largely responsible for the discrepancy in funding patterns between smaller and larger charities. They make it

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283 Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities, Lloyds Bank Foundation for England and Wales, 2015


286 Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities, Lloyds Bank Foundation for England and Wales, 2015
difficult for small and medium-sized charities to respond to increasing need, typically favouring large organisations and generic, one-size-fits-no one services over service quality. As one grantee described:

“...where commissioning does not put a high enough value on quality of practice, the negative impact ...is much wider but one may be that charities are not prepared to compete on price if it means services are not good enough.”

Many grantees describe commissioning practices which either place them at an unfair disadvantage in the bidding process, or exclude them for bidding altogether. These practices have enabled larger organisations, whether businesses or charities, to collude with commissioners and effectively shut smaller providers out of the market place. Ultimately, this can prevent individuals from accessing the services they need, as highlighted by one of the Foundation’s grantees:

“When contracts go to commercial providers, the services suffer and so do the service users.”

3.1.3 The second and third biggest pressures Lloyds Bank Foundation grantees identified in 2015 were the interconnected factors of increased demand for services and decreasing public services, which were both identified by more than half of survey respondents. Across the social welfare sectors that the Foundation funds, services and service users have been impacted by reduced funding and welfare changes. This is a view recognised both within and outside the sector. For example, two thirds of local authorities in England have reported that the 2010-2015 welfare reforms increased homelessness in their areas. The increasing demand is particularly challenging due to the funding pressures already identified. As one charity reports:

“While the need increases, our ability to attract funding is increasingly difficult.”

3.1.4 Small and medium-sized charities are tackling many of these challenges such as through attempting to diversify their income and developing consortia. However, their ability to respond is limited as access to resources becomes increasingly difficult. This includes access to funding for non-project costs as well as the support available through infrastructure organisations.

3.1.5 Over the last year, the sector has witnessed the rise of the ‘charity scandals’ which have further challenged charities. It is the fundraising activity of larger charities, too
often focused on increasing market share, which has led to the scandals that have dominated the media. While small and medium-sized charities might feel distanced from this, due to the distinct nature of small, locally-rooted organisations, the fallout of the attention could lead to unwarranted impacts on smaller charities. While a recent nfpSynergy survey reported an increase in levels of public trust in charities, levels are still significantly lower than those recorded in 2010.\textsuperscript{293} Heavy-handed responses, such as the proposed anti-advocacy clause,\textsuperscript{294} could severely impact on small and medium-sized charities’ ability to make the voices of the individuals they represent heard.

### 3.1.6 Added to these challenges are the rise of the ‘super major’ charities, those with an income over £100m per annum. There are concerns that these organisations are more akin to commercial organisations than charities in their true form, typically chasing contracts and forcing smaller charities out of the marketplace by cutting prices irrespective of service quality. This not only threatens the existence of small and medium-sized charities and all the benefits they bring, but also threatens the reputation of charities which is dependent on high levels of public trust.

### 3.2.0 What opportunities do charities have in the current environment?

#### 3.2.1 Funding cuts, particularly to local authorities, have made it more important than ever to achieve the highest value for money. This is likely to increase further still in light of the anticipated economic downturn following the referendum. Small and medium-sized charities offer a real opportunity for Government here. They can deliver the long term value Government needs due to the person-centred services they provide which address the root cause of issues rather than offering a revolving door of generic services. While they may not offer the lowest unit cost, the wider benefits and effective services they provide can mean that the most benefit is gained from every public pound. It will be ever more important that commissioners work with small and medium-sized charities as they work with reduced budgets in order to maximise the impact they can achieve. Lloyds Bank Foundation, together with seven sector bodies, has outlined a series of practical steps that Government could take to enable small and medium-sized charities to deliver more public services through systems which do not place them at a disadvantage. Details of this have been shared with the Minister for Civil Society but as yet the group has not received a response. A copy is included in Appendix I.

#### 3.2.2 Much has been written and discussed about the disparity between areas throughout the UK following the referendum result. There has been a particular emphasis on engaging with communities that have been left behind in economic terms and which display high levels of distrust with Government. Small and medium-sized charities are well positioned to tackle these social cracks, building trust in communities and giving voice to those who have typically gone unheard. The very nature of smaller, local charities which are embedded in the communities they serve, enables them to

\textsuperscript{293} Trust in Charities Bounces Back After Low Last Autumn, nfpSynergy, 2016

\textsuperscript{294} Update on a new clause to be inserted into grant agreements, Gov.uk, 2016
reach communities which the statutory sector has little chance of engaging, as previously discussed.

3.2.3 Devolution should also offer opportunities to small and medium-sized charities as it should mean decisions are taken locally with input from local people and organisations to ensure decisions are made in their interest. However, to date there has been little evidence of devolution deals realising this ambition. Foundation grantees report trying to engage with strategic devolution discussions but being shut out and unable to participate. This is concerning because if they are not involved at the early stages, it is unlikely that any subsequent systems will work for them.

4.0 Innovation

4.1.0 How do charities seek to innovate, particularly in the digital arena?
4.1.1 Small charities are typically viewed as more innovative than other organisations. This can be seen in the services they deliver, the way they interact with the community and, increasingly, their approach to securing funding. They can be particularly innovative in the services they deliver because of their flexibility, driven by the needs of the individuals they serve which change over time. For example, Nene Valley Christian Family Refuge has developed an approach to support those affected by domestic abuse that uses Occupational Therapists to assess and evaluate the needs of individuals, supporting them to develop the confidence, resilience and independence that is required to become an active and effective member of society. Another of the Foundation’s grantees, Preston Road Women’s Centre, has been shortlisted for the Enterprise Award at the 2016 Third Sector Awards for its innovative approach to securing accommodation and funding by attracting individuals to ethically invest in properties to provide safe housing for women and children fleeing domestic violence.

4.1.2 In the digital sphere, many small and medium-sized charities have been limited in their innovation, largely due to costs, availability of resources and in-house capabilities.

4.2.0 What more could be done to promote innovation, and by whom?
4.2.1 Innovation requires resources: in time, money and capability. Funding has to be available to enable charities to try new things without fear of failure – rigid contracts, which are now common place for funding charities, stifle innovation. Instead, funders need to be willing to take risks. Funding is critical in freeing up the space and resources to try new approaches when too often small and medium-sized charities are struggling to cover the costs incurred in delivering a contract. Yet it needs to be matched with capacity and capability building support. Funding cuts have seen a reduction in charities’ ability to share best practice as local infrastructure declines and networking opportunities are reduced — investment in opportunities for charities to take part in networking and information sharing events

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and activities could help to promote innovation, but this includes freeing up the time of the individuals who would be involved. In too many cases, smaller charities do not have the capacity to do anything other than deliver services.

4.3.0 **What barriers are there to being innovative?**

4.3.1 Small and medium-sized charities can face barriers to innovation, such as through risk-averse funders. Increasingly, funders ask for proof of success before awarding funding which limits the ability of charities to try new approaches. Government funding can also limit innovation by offering contracts at low unit costs which do not allow for service innovation or development. Statutory funders’ move away from grants has a significant impact here. At the Foundation, a specific funding programme, **Enable**, has been developed so that small and medium-sized charities can access new funding to pilot new approaches.

Barriers to innovation can also develop internally, particularly in relation to risk-averse trustees. The recent focus on and criticism of trustees could increase this problem, forcing them to become even more risk-averse for fear of accusations over the misuse of funds.

5.0 **Governance and leadership**

5.1.0 **What skills are required to lead and manage a charity?**

5.1.1 The skills and qualities needed to run a small charity can differ substantially to those involved in running a multi-million pound organisation. Underpaid and over-worked, small charity chief executives have to be able to multi-task and take a hands-on approach to the day-to-day running of the charity whilst also leading on strategy and external relations. These chief executives need to be innovative and passionate to rise to the incredible challenges they face, often supporting individuals at a local level one day and taking on big businesses and Government the next. Funding pressures have led to many small charity leaders becoming more isolated as local infrastructure organisations close and there are fewer resources to allow leaders to attend conferences and networking events. Almost two thirds of small and medium-sized charities surveyed last year identified personal contacts as a source of non-financial support, with charities identifying that ‘support is difficult to obtain as often the organisation that could help is struggling with funding and is in the same boat as you’.$^{297}$

5.2.0 **How can these skills be gained? What support exists to develop these skills within the charitable sector?**

5.2.1 For many leaders in small and medium-sized charities, they have worked their way to the top of their organisations, or were the original founders. This can give them legitimacy and intimate knowledge of the issues their services tackle but in some cases it can mean that they lack experience of running an organisation. Lloyds Bank Foundation supports charity leaders through its **Enhance** programme, offering a

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$^{297}$ [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities, Lloyds Bank Foundation for England and Wales, 2015](#)
series of ‘funder-plus’ options to grantees. This has included funding chief executives through the School for Social Entrepreneurs and matching charities with mentors from Lloyds Banking Group. The Foundation also funds ‘action learning sets’ to enable grantee chief executives to work through problems and support each other. These kinds of opportunities play an important role in continuing to build the capabilities of small and medium-sized charity chief executives and strengthening them through new networks of support. Grantees report that the opportunity to network with others working in similar sized organisations or in similar sectors can be invaluable in what can otherwise be a sometimes isolated role.

5.3.0 What role should trustees play in the performance and effectiveness of a charity?

5.3.1 Unlike the trustees of larger counterparts, those governing small and medium-sized charities are often involved in the day-to-day running of charities. As some of the Foundation’s grantees have highlighted ‘Volunteers and trustees provide support - expertise, experience, work experience which can be applied to our work’ and ‘Several [trustees] are more actively involved in the Charity’s day to day running, e.g. our Chairperson is involved in Human Resource matters and other members are involved in running fundraising events’. Trustees need to be able to match these practical, day-to-day skills with strategic and long-term thinking, encouraging the charity to plan for and adapt to the long term as well as dealing with tomorrow.

5.3.2 There are calls for the largest charities to adopt governance structures aligned with the corporate sector but it is imperative that this approach does not veer into the sphere of small and medium-sized charities. There may be much to learn from businesses, as demonstrated by the skills exchanges through Lloyds Banking Group’s charity mentoring scheme run through the Foundation, but businesses do not have all the answers. Charities should be supported to adopt business practices where it makes sense, but there should not be a drive for all charities to work more like businesses. In particular, the voluntary nature of trustees within small and medium-sized charities is an important characteristic – ‘payment would be completely counter to their ethos’.

5.4.0 How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

5.4.1 Many charities struggle to find diverse, skilled, confident boards which can stymie charities’ ability to innovate. Yet there are also small and medium-sized charities with great, supportive and specialist boards who bring skills, contacts and support.

5.4.2 While the current focus by Government on governance is important, it is critical that trustees are not demonised or discouraged from volunteering. They need to be nurtured and supported, recognising that many trustees are juggling their volunteering with paid work, family life and other commitments. Trustees should be able to look to the Charity Commission for support and guidance but as funding has been reduced, the Charity Commission has been less able to take on this role. Other

298 Information provided respondents to Lloyds Bank Foundation grantee survey, 2015
299 Voluntary Sector Leaders Moot New Governance Structure for Big Charities, Guardian, 2016
300 Governance Crisis? What Governance Crisis?, Paul Streets, 2016
organisations, such as Small Charities Coalition, have consequently had to go some way to take on aspects of this role through their helpline service but this is done without the authority, technical expertise or funding needed.

5.4.3 A number of projects have tried to build the skills of trustees through training programmes. The impact of such training programmes can be limited in part due to the voluntary nature of trustee roles. Where they are already giving up their time to support the charity, they may be limited in their ability to attend training programmes, particularly when they are held during office hours when many volunteers will be busy with their paid work.

5.4.4 It is important that legislation, policy and practice supports trustees to run charities effectively and does not discourage those with the skills and experience from volunteering. For example, this means ensuring that service users can qualify to be trustees where appropriate.

5.5.0 What, if any, changes might this mean for current arrangements?
5.5.1 Nurturing and supporting trustees effectively requires the Charity Commission to take on a more advisory role to better empower trustees. In recognition of the need for trustee boards to be diverse and reflective of the community they serve, support needs to be available to encourage and support small and medium-sized charities to attract and recruit those with the skills and experience to lead the organisation.

6.0 Accountability

6.1.0 How can charities ensure that they are properly accountable to their beneficiaries, their donors and the general public? What if any changes might be this mean for current arrangements?
6.1.1 Small and medium-sized charities are focused on how to best serve the individuals they support. It is through keeping their clients at the centre that they are able to ensure they remain accountable. For example, many small and medium-sized charities run service user forums, encourage service users to volunteer with the charity and indeed many small and medium-sized charity employees were once service users themselves. Many charities also demonstrate their quality and accountability through the standards they sign up to through accredited programmes and membership of sector bodies.

6.1.2 While it is important that small and medium-sized charities are accountable to their donors, it is essential that we look wider than this to the accountability of public money more generally. In 2013/14, the sector received 34% of its total income from Government, at a value of £15 billion. Yet accountability within Government supply chains about how public money is spent remains opaque. This is significant because it impacts upon the ability of charities to meet need and individuals’ ability to access the services they need.
6.1.3 Problems arise where commissioners adopt prime provider models with a perceived intention for smaller charities to deliver sub-contracts. In reality, despite smaller charities’ expertise and legitimacy adding quality to bids, they often do not receive referrals or funding to deliver services. The Open Contracting Data Standard does not currently require detailed information on sub-contractors and the transparency clause merely asks for some information on ‘major sub-contractors’. This is not sufficient to build a detailed aggregate picture which would enable commissioner market stewardship or public accountability.

6.2.0 How should charities assess their long term viability and/or sustainability?

6.2.1 Most small and medium-sized charities are focused on keeping their heads above the water for the next 2-3 years. Funding cycles and short term policy making make much more nigh on impossible. The Foundation is developing a piece of work looking towards 2025 to help charities think through how they can better prepare for the future and shape strategies which help them adapt to funding opportunities.

7.0 Resource management

7.1.0 What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

7.1.1 Many of the challenges to financial sustainability have already been discussed throughout this paper. The primary challenge is the fall in Government income through grants and contracts to small and medium-sized charities which has seen a decrease of up to 64% since 2008/09. This decrease is likely to continue, with some local areas already reportedly ceasing all funding to the voluntary sector due to funding constraints within the local authority. This presents significant challenges to small and medium-sized charities – Government income constitutes 17% of the sector’s total voluntary income but for small and medium-sized charities it is thought to be even higher.

7.1.2 Across the board, small and medium-sized charities’ financial sustainability is difficult to manage owing to the short term nature of many funding streams. Funding agreements of several years in length would better enable charities to plan and adapt.

7.1.3 Partnerships such as mergers and consortia have often been put forward in response to commissioners’ race to scale. They have been have been touted as a way for small and medium-sized charities to thrive. While they can offer opportunities, they can present challenges in themselves, particularly where commissioners have gone so far as to specify that charities must merge as a condition of a contract. This presents huge issues to the sector. Experience shows that partnerships work where they are based around values, not funding opportunities.

7.2.0 How can these challenges be overcome?


302 UK Civil Society Almanac, NCVO, 2016
7.2.1 Small and medium-sized charities are trying to tackle funding challenges and figures show that they have gone some way to doing this as income from individuals has risen while Government income has decreased. However, the amount raised from individuals is insufficient to offset losses from Government. Similarly, there are limited cases of longer term funding becoming available - Camden Council is an example that bucks the short-term funding trend, by offering strategic partner funding for the sector of up to seven years “to provide unprecedented security.” Lloyds Bank Foundation also promotes longer term funding through its Invest core funding programme, offering grants for up to three years with the potential to extend to six.

7.2.2 In addition to the availability of core funding, sustainability is dependent on charities having the capacity and capability to thrive and not just survive. Inevitably, this returns to resources being made available and systems allowing for better processes. For example, where partnerships are encouraged, funding should be made available to support their development and bidding timescales should be long enough for partnerships to form.

7.3.0 How can best practice and information be shared across the sector?
7.3.1 A number of infrastructure organisations already exist in the sector, such as Small Charities Coalition, NCVO and CFG. These organisations are well placed to disseminate information in the sector. Similarly, independent funders such as Lloyds Bank Foundation for England & Wales provide opportunities to share information and best practice. Independent funders typically harbour a wealth of information through relationships with grantees together with monitoring reports and evaluations. Providing opportunities for grantees to meet and sharing learning beyond grantee relationships is an important role for funders. As a recent report by the Institute for Government has highlighted, providing such face-to-face opportunities is essential in ensuring meaningful learning can be transferred between organisations.

7.4.0 What lessons can be learnt from past mergers or dissolution of charities?
7.4.1 The experience of Lloyds Bank Foundation grantees has highlighted that mergers can be highly effective where organisations come together around values and where there is an independent organisation coordinating the partnership. For example, Women’s Resource Centre’s coordinating role has been integral to the development and success of the Pan London Violence Against Women and Girls Consortium, consisting of 22 member organisations. This consortium has been facilitated by funding from an independent foundation – it has to be recognised that such investment is essential for effective partnership work.

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304 Camden Council Strategic Partner Fund, 2015
305 Local Public Service Reform: Supporting learning to integrate services and improve outcomes, Institute for Government, 2016
However, not all mergers are successful and nor should small and medium-sized charities be forced to merge, as they have been in some situations. Others forms of partnership working can be more effective, whether formally or informally and the resources need to be available to facilitate this. It also needs to be recognised that in other cases, partnership working is not suitable and organisations should have the ability to remain autonomous.

**How can charities effectively deliver services and be assured that their work achieves successful outcomes?**

Small and medium-sized charities can be assured of the difference their work makes through the close relationships they have with clients. Many of these charities face difficulties in formally measuring their impact due to both capacity and capability issues, particularly where funders place excessive reporting requirements on smaller organisations. As one Lloyds Bank Foundation grantee has commented:

“Having the capability and capacity to provide the evidence and spend the time on fundraising at the same time as working on the frontline to support clients are big challenges for small charities like ourselves.”

Small and medium-sized charities need support to develop effective impact measurement systems, but funders must also be proportionate in their expectations. Lloyds Bank Foundation supports grantees with outcome measurement, both through its Enhance funder-plus support and specifically for domestic abuse charities through its work with Women’s Aid Federation of England, Imkaan and Welsh Women’s Aid.

**What are the benefits and challenges of funding for charities being derived from commercial contracts?**

Contracts offer a means to access essential funding to deliver services for small and medium-sized charities. However, for the small and medium-sized social welfare charities that Lloyds Bank Foundation supports, grants would be a far more effective means of support, as highlighted by the Grants for Good campaign.

There are numerous challenges for small and medium-sized charities presented by contracts, primarily:

- Their complexity, requiring HR and Finance expertise that many smaller charities do not have access to
- Their size, particularly where smaller lots have been rounded up into ever larger contracts over larger geographical areas, forcing smaller charities out of the market place
- Their payment structures are set against smaller organisations which have smaller bank balances, with many organisations unable to supply the up-front capital, or take on the risk, of payment by results mechanisms

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307 Sustaining Dedicated and Specialist Services programme in England and The Capacity Building Project in Wales
• Their rigidity, with services dictated by commissioners rather than giving freedom to those organisations that understand the issues clients face to develop and deliver services that best meet need
• The resource-intensive nature of their administration, both for the commissioner and the bidder
• The secretive nature of bidding processes which increase competition and reduce collaboration.

7.6.3 In many cases contracts have enabled smaller providers, namely small and medium-sized charities, to be excluded from the market place. Larger providers, whether commercials or charities, have been able to collude with commissioners to develop ever larger contracts and undercut smaller providers at the expense of service quality. Small and medium-sized charities have become susceptible to larger organisations’ demands. For example, smaller charities report problems of ‘bid candy’ whereby prime providers use smaller charities to add knowledge and legitimacy to their bids then later fail to pass referrals and money to the smaller subcontractee. The Foundation has even heard examples where larger organisations have demanded that small charities do not negotiate or discuss applications with other prime providers, only to be left out of the larger organisation’s bid and having lost the opportunity to work with other primes.

7.6.4 Unfortunately, examples of poor commissioning practice are widespread. Lloyds Bank Foundation has recently undertaken research into the detail of commissioning practice, enabling charities to anonymously share examples of good and bad commissioning practice. Evidence from more than 100 different bids were collected, with the vast majority of respondents reporting details of commissioning processes that have excluded small and medium-sized charities. The extent of poor practice is concerning, both in terms of its breadth and depth. Examples are evident from across all parts of England and Wales and include sometimes absurd specifications and processes which can make it nigh on impossible for small and effective local services to win contracts – whether it is from penalising charities for already holding quality standards (where points are instead gained for achieving them) or requiring a charity bidding to deliver a mental health service to have hard hat policies because the same process is used as for commissioning construction companies. Full details of the evidence collected are due to be published later this autumn.

7.6.5 Many of the challenges small and medium-sized charities face with contracts is a lack of understanding by commissioners about needs and how best to meet them. This has resulted in commissioners shaping services that do not meet need effectively and which do not recognise the important role that smaller organisations have in meeting need. To try to address this, Lloyds Bank Foundation has worked with Imkaan, SafeLives, Welsh Women’s Aid and Women’s Aid Federation of England to develop a toolkit for domestic abuse commissioners which will support commissioners to navigate the commissioning cycle in a way that ensures services meet individuals’ needs. Separate toolkits are being produced for England and Wales, recognising the different legislative and funding contexts in each country. The
Welsh toolkit has now been published and is available online at:

8.0 Social investment

8.1.0 What is the potential of social investment and social impact bonds?
8.1.1 Social investment is being heralded by Government as a new way to secure the sustainability of the sector. However, this in itself presents a number of challenges for the small and medium-sized charity sector. Much of the emphasis on social investment has been placed on social impact bonds despite little evidence of their success in prompting innovation and improved responses to social issues. The complex systems and payment by results nature of social impact bonds make them difficult and costly for small and medium-sized charities to navigate. Even Big Society Capital, the organisation paid to promote the take-up of social investment, makes clear that social investment won’t work for everyone. At times when finances are particularly tight, it is critical that Government does not continue to focus its resources on social impact bonds, which have the potential to benefit the limited few when funds could be directed at programmes which would bring greater benefit to the 97% of the sector which has an income of less than £1m.

8.1.2 Lloyds Bank Foundation for England & Wales is exploring the potential for social investment more widely through a pilot repayable grants programme, focused on income diversification in small and medium-sized charities. It sees finance and consultancy support go hand-in-hand to enable smaller organisations to take advantage of repayable finance offers, whilst removing the risk by transferring loans to grants where the new income stream is not successful.

8.2.0 What are the barriers to fulfilling the potential?
8.2.1 No matter how much money Government pumps into social impact bonds, they are unlikely to ever be accessible to huge swathes of the sector. Many services do not have the means to re-pay finance, particularly where Government is cutting back on social welfare services and charities are working with individuals that do not have the means to pay for services themselves. Core funding through grants will always be a more viable option for many charities.

9.0 The role of Government

9.1.0 What should be the role of the Government be with the sector? Have these relationships changed? If so, how?
9.1.1 Charities offer great potential to Government through the services they provide, the communities they reach and the information they share. Government should work in partnership with the sector to maximise this potential, to identify needs, co-produce solutions and provide funding as appropriate - taking a simple, proportionate and supportive approach to working with charities. However, this potential is currently under threat from a variety of angles.
9.1.2 Traditionally, many small and medium-sized charities have received a significant proportion of funding through Government grants, particularly local government grants. Since 2008/09, small and medium-sized charities have seen a decrease in the value of Government grants of 64%. Although some of this funding has been directed to contracts, Government income through contracts to small and medium-sized charities has decreased by up to 37% in this time.

9.1.3 The decrease in availability of Government grants presents some serious issues. As the Grants for Good campaign highlights, grants are important because they:

- Give organisations the freedom to adapt and respond to changing needs, delivering services based on knowledge and experience rather than being shoe-horned into delivering a contract specification which might not achieve the highest levels of service quality
- Save time, effort and resources for both Government and charities by being less administratively intensive
- Support innovation and enable charities to trial new interventions
- Enable smaller organisations to receive funding which may have otherwise been overlooked through large contract commissioning.

A key feature of securing the sustainability of small and medium-sized charities is returning to a more grants-based approach to funding.

Government has the power to return statutory funding to a more grants-based approach, particularly given the specific provisions encouraging grant making contained in the EU Public Contract Directive’s light-touch regime.\(^{308}\) This should be part of a wider reform to commissioning to address the biased system that currently places smaller organisations delivering services locally at an unfair disadvantage. While it is important for funding decisions to be made locally, central government should provide a framework within which these decisions are made. Specifically, this should be a framework that allows all providers to have a fair chance of receiving funding. It is also important for central government to work with the sector when designing centrally-driven programmes, such as the Work and Health programme to ensure processes are introduced that will allow those services best placed to deliver services to be awarded funding.

9.1.5 At a local level, many small and medium-sized charities’ relationship with local government has diminished as local authority spending cuts heighten and more commercial commissioning processes are adopted more widely. The Foundation hears from grantees that they are reluctant to speak out against poor commissioning practice for fear of reprisals in terms of funding cuts and being overlooked in future funding decisions. One grantee even shared information about being marked down for questioning a contract that was on offer through the local authority – a clear indication of the authority’s lack of appetite to negotiate or learn from the experience and expertise of those locally embedded charities delivering services to individuals at risk. Relationship difficulties have been compounded by ongoing

redundancies and restructures in local authorities, so it is increasingly difficult for charities to establish who they need to speak to and how they can reach them.

9.1.6 The advocacy role played by charities is essential in ensuring the voices and experiences of the most disadvantaged are heard and recognised. It is essential that charities’ ability to do this remains secure. Legislation and policy such as the Lobby Act and the proposed anti-advocacy clause further deter and prevent charities from speaking to power. This is worrying because of the understanding that small and medium-sized charities have of the communities in which they are based – this information needs to be fed into Government policy making if the Prime Minister’s ambition of “building a better Britain” where Government won’t “entrench the advantages of the fortunate few” but “will do everything [it] can to help anybody, whatever [their] background, to go as far as [their] talents will take [them].”

9.2.0 What should be the role of the Charity Commission? Have these relationships changed? If so, how?

9.2.1 Much attention of late has been drawn to the role of the Charity Commission. In response to significance resource constraints, the Commission appears to be moving away from an advisory role. The implications of this for small and medium-sized charities is that they lack support on the interpretation of legal requirements. Organisations such as Small Charities Coalition have gone some way to address this needs gap but their resources and authority are limited. The Commission needs to support good practice as well as investigating poor practice, and as such needs to provide support to small and medium-sized charities in navigating the regulatory landscape. As Small Charities Coalition promotes across the board, the Commission needs to take an approach which is simple, proportionate and supportive.

9.3.0 How should Government (national or local) focus its resource to deliver its civil society agenda?

9.3.1 It is essential that the invaluable work of small and medium-sized charities is recognised right across Government, with better consultation and co-production in all departments. As the Secretary of State for Culture, Media and Sport recently confirmed, the work of the Office for Civil Society and Innovation ‘really is a challenge for the whole of Government’. It is for the Office of Civil Society and Innovation to ensure that this is embedded across Government, working with the sector to enable knowledge and ideas grown from the grassroots can inform Government policy. Doing so will enable Government to make the best use of its resources and avoid the challenges of programmes that have failed to achieve their objectives such as the Work Programme and Transforming Rehabilitation.

9.4.0 What is the likely impact of greater devolution on the charitable sector, or particular types of charity? What are the opportunities and challenges associated with local devolution?

309 Statement from the new Prime Minister Theresa May, 2016
310 Culture Secretary Maiden Speech on Importance of the Arts, The Rt Hon Karen Bradley MP, 2016
9.4.1 Devolution offers great potential for small and medium-sized charities to be more involved in decision making and service delivery. Yet to date, devolution has largely failed to involve local charities and communities. To fulfil this potential, small and medium-sized charities need to be involved in strategic decisions at the start of the devolution process so they have the ability to shape processes that will most benefit local communities. A requirement for the involvement of local small and medium-sized charities should be included within devolution deals to ensure their contribution is not overlooked and this great opportunity is not missed.

Appendix I: Public Funding for Small and Medium-Sized Charities: Recommendations for Reform

As the Minister for Civil Society, Rob Wilson MP, has said Government is keen to ensure that small and medium-sized charities get a greater share of Government contracts, ‘busting the barriers’ that currently prevent them from engaging in public service delivery. This paper has been produced by Charity Finance Group, Children England, Clinks, Locality, Lloyds Bank Foundation for England and Wales, NAVCA, NCVO and Small Charities Coalition, bringing together their experiences of working with and supporting small and medium-sized charities on the ground.

The Minister’s commitment to supporting small and medium-sized charities is warmly welcomed. It is essential that the way that public services are delivered and funded, including commissioning practices, change so that smaller charities are able to compete fairly for funding and so that individuals are able access the services they need which many good small and medium-sized charities provide.

This is critical because good small and medium-sized charities are at the heart of delivering effective services and much of their value is intrinsically linked to their size. Grounded in their community, they understand local needs, can reach and engage people and communities and provide holistic services which address the root causes of the problems which individuals face. They are flexible and efficient, often offering fantastic leverage with any public money to attract a far higher level of independent and voluntary income and with a core team of staff typically supporting a far higher number of volunteers. They are usually first to identify a problem and will stay engaged in trying to tackle it even when other organisations and services have been cut or have moved on.

Government needs to increase its proportion of spending that reaches small and medium-sized charities, whether this is through grants, contracts or another payment mechanism. We urge the Government to follow the principle outlined in the Joint review of partnerships and investment in voluntary, community and social enterprise organisations in health and social care that commissioning should work on a ‘simplest-by-default’ basis with grants,
contracts and payment by results mechanisms considered on equal footing and used as most appropriate.

This paper explores how an increase in the share of public funding that reaches small and medium-sized charities could be achieved through each of:

- reform of central government’s processes for its own commissioning;
- a stronger central government framework for commissioning across Government; and
- influencing commissioners at a local level to do better.

These steps should be enacted to enable small and medium-sized charities to reach and support individuals and communities facing disadvantage to transform their lives.

We look forward to the Minister leading these changes through Cabinet Office and across Government through the social justice committee.

[Full report removed, available from Committee staff on request].

30 August 2016
Localgiving — Written evidence (CHA0016)

Localgiving — Written evidence (CHA0016)
Response to Call for Evidence for House of Lords Select Committee on Charities

Localgiving is the UK’s leading membership and support network for local charities and community groups. It aims to empower grassroots organisations to fundraise online, connect with supporters and take control of their financial future. In addition, it provides advocacy for the local voluntary sector and works to secure third party funding for its members. It provides free training opportunities, fundraising resources and regular incentivised giving campaigns to help groups raise funds online.

Introduction

- In October 2015 Localgiving published its first Local Charity and Community Groups Sustainability Report. This was a study of 538 local charitable organisations from across the UK. It explored various issues ranging from financial challenges, to collaborative working, to skills distribution. The evidence provided in the following document is primarily taken from this report. The full report can be downloaded here. The next report is due to be published in early Autumn 2016.
- Under the heading, Innovation, we have also included data from another Localgiving report - Striking a Match: Incentivised Giving Report 2015.
- While we have strong anecdotal evidence from our members on the majority of questions asked in this Call for Evidence, in this document we focus only on the questions we have directly addressed in our research.
- The section headings used correspond with those provided in the Call for Evidence.

The Purpose of Charities

What makes the role of charities distinct and how do they contribute to community cohesion?

Survey respondents saw the key strengths of the local voluntary sector (in order of importance) as:

- Knowledge of local needs
- Ability to develop strong trusting connections
- Knowledge of local area
- Flexibility/ability to react

Qualitative data supported this, while also highlighting the role that local charities play in community cohesion:

“What makes local charities special is their flexibility and the element of informality—the ability to build close relationships and identify and respond to specific local needs etc. I believe that donors can have a sense of ownership with local charities that is different to larger, national groups”  Rosemary Flexney (Vice-Chairperson – Sports Driving Unlimited)
Localgiving — Written evidence (CHA0016)

“local, small charities are often something that people really want to be a part of – they bring out the best in people...they have people coming together from all walks of life to support a cause, It creates a really wonderful atmosphere and it can be a wonderful place to work and thing to be part of” Jem Stein  (Founder and Director of The Bike Project)

How does the sector benefit from volunteering?

The value of volunteers and/or issues related to volunteer recruitment were recurring themes throughout our research. Many respondents highlighted the fact that a high proportion of local organisations are entirely volunteer-led.

The issue of obtaining reliable, appropriately skilled volunteers was particularly prominent. As explained by Susan Pyke, Chair of Music and Special Needs, Norfolk

“It’s very difficult to get volunteers. A bigger charity we know paid for volunteers to train - 3 people trained and 2 disappeared. I get lots of people contacting me, one offered to be a trustee but then they are impossible to contact. You’ve got to have reliable volunteers”

What challenges do charities face in trying to fulfil their role in civic society? How can these challenges be overcome?

The main challenges facing local charities in fulfilling their role are financial insecurity and rising demand on services. We elaborate under the section heading Pressures and Opportunities ( below) and Resource Management (Page 4)

The local charity sector also suffers from a shortage of core skills – both among paid staff and volunteers. Many groups lack the capacity, skills and confidence to fully engage with digital technology (See section heading Innovation – page 3)

Pressures and Opportunities

What are the main pressures facing charities currently, and what impact have these had?

Financial Insecurity:  local charities in the UK face significant financial insecurity.

Very few respondents were optimistic about the possibility of growth - 73% expected their annual income to either decrease or remain stagnant over the coming financial year.

When asked about their most “pressing issue” over the next 12 months, the top result by some distance (59%) was ‘generating income and achieving financial sustainability’.

42% of the groups surveyed had used their reserves in the last 12 months.

The impact of financial insecurity was apparent throughout the survey findings. Whilst a minority of charities were concerned about their immediate survival, there were far greater financial worries related to medium to long-term sustainability.
80% of respondents were optimistic that they would remain financially afloat over the next 12 months. This fell to just 47% when extended to the next 5 years.

53% of respondents said they knew of one or more local charities that had closed for financial reasons

**Funding sources:** There are particular fears about the long term sustainability of contracts and grants. 83% of respondents cited competition for grants and contracts as a major financial concern.

There are also concerns that grants and contracts can be overly restrictive, impinging on the autonomy of groups. As one respondent stated:

“Applying for grants and contracts from local authorities requires so much work and they often impose intrusive requirements. If we were to win these contracts we would have to change the services we offer.”

**Demand for services:** Respondents reported a significant rise in demand for services over the previous 12 months.

75% of respondents reported an increase in demand, with just 3% reporting a decrease. 81% of respondents expected a further increase in demand over the following 12 months.

Only 15% of groups facing an increase in demand for services feel sufficiently resourced to cope with this increase.

**What opportunities do charities have in the current environment?**

Developments in digital technology represent a huge opportunity for less well-resourced charities and community groups. For example, there are now numerous affordable and accessible online fundraising, marketing and project management tools. These enable small, local charities to engage new audiences, increase efficiency etc at very little or zero cost. However, at present many groups lack the capacity, skills and confidence to benefit from this technology (See section heading Innovation - below).

**Are there specific pressures affecting particular types of charity?**

All of the evidence provided in this document specifically addresses issues facing local charities – defined as “groups who operate within the UK are subnational (not national or trans/international) in the work they carry out.”

**Innovation**

**How do charities seek to innovate, particularly in the digital arena?**
Online fundraising and digital marketing opportunities are increasingly accessible to grassroots charities. The majority of groups surveyed carry out some form of online fundraising and/or digital marketing - 82% communicate with supporters and raise awareness via social media; 69% via email newsletters and 66% through their own website.

However, many small, local groups lack the capacity, skills and confidence to fully benefit from this technology.

76% of respondents did not believe they had the skills to run a successful fundraising campaign. 28% claimed they needed “significant upskilling”.

Localgiving’s Incentivised Giving Programme helps grassroots groups engage with digital technology and develop practical fundraising experience, whilst reaching new donors and raising funds. The programme consists of an annual calendar of fundraising campaigns, ranging from deterministic match funds; to randomised “lottery-style” match funds; to competitions encouraging support for local community organisations from individual fundraisers. Through the programme, local groups learn, practice and evolve their digital fundraising skills.

In 2015 the programme raised £834,224 for 1,288 local groups through 16,561 donors.

One Donor commented: “This kind of funding initiative will become more and more important as the baby boomers who mainly populate charities and voluntary groups start to disappear and more cash-strapped generations find it difficult to give their more limited time and more limited resources”

Sparking a Match: Incentivised Giving Report 2016 explores the impact and learnings from this programme.

What more could be done to promote innovation, and by whom? What barriers are there to being innovative?

Building digital skills capacity within the sector holds the opportunity for increased efficiency, income generation, communication and collaboration. Schemes such as Localgiving’s Incentivised Giving Programme help to build this capacity.

To maximise this opportunity, it is important that training programs to up-skill local charities are comprehensive, long-term, adequately resourced and cater to specific sector needs.

Resource management
What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

The key data from our Local Charity and Community Groups Sustainability Report covering the financial state of the local charity sector has been given on Page 2 of this document under the section heading Pressures and Opportunities. Some of the most common reasons cited for ongoing financial insecurity include:

Declining grants and contracts - Many local charities and community groups are reliant on dwindling grants, leaving the sector vulnerable to economic or political fluctuations. 83% of respondents saw competition for limited grants or contracts as a major financial concern.

Increasingly restricted funding - There are concerns that grants and contracts, particularly from local authorities, can be overly restrictive, impinging on the autonomy of groups and often preventing them investing in core costs.

Difficulty in obtaining public donations - 68% of respondents cited difficulty in generating donations from the general public as a significant financial concern. 70% of respondents said online donations accounted for less than 5% of their income.

How can these challenges be overcome?

In the Local Charity and Community Groups Sustainability Report 2016, Localgiving make the following recommendations:

Diversify income streams - Local voluntary groups must look to diversify their income through exploring new financial models and emerging funding channels, such as corporate partnerships; public donations; individual fundraisers and earned income. A significant initial injection of resources, coupled with long-term practical training and support are necessary to support the sector’s transition towards more sustainable financial models.

An increase in unrestricted funding is essential to improve the sustainability and autonomy of the local voluntary sector - The local voluntary sector and its advocates should become more vocal about the need for unrestricted funding and unapologetic about spending on core costs. This message should be supported by partners in government, the corporate sector and the media.

The development of partnerships should be actively encouraged - Growing numbers of groups have begun working collaboratively with corporates or other voluntary sector organisations, a trend that should be nurtured and supported. Such relationships can have huge benefits for local groups; from resource pooling to skill swapping.

There is a need for increased public awareness of local charities, the work they do and the challenges they face. Individual fundraisers should be encouraged to support local causes, having the knock-on effect of driving a more equitable percentage of public donations into
the sector. We therefore recommend schemes that encourage donations, fundraising and volunteering for local groups and call upon the media, government and corporate sector to help promote such initiatives and drive awareness.

Skilled volunteers with specialist knowledge must be brought into the sector - Serious consideration and resources need to be put into encouraging specialists in areas such as marketing, fundraising, finance and corporate engagement to volunteer for local charities.

There is a need for a more equitable distribution of funding opportunities to ensure the sector flourishes across all areas of the UK - New ways must be found to fund voluntary sector organisations in under-resourced areas.

Building digital skills capacity within the sector holds the opportunity for increased efficiency, income generation, communication and collaboration - Small, local charities have access to numerous affordable tools online - ranging from design to mass communications; project management to fundraising. To maximise this opportunity, it is important to identify the best channels for disseminating knowledge. Training programmes to up-skill local charities must be comprehensive, long-term and adequately resourced.

**Social investment**

**What is the potential of social investment and social impact bonds? What are barriers to fulfilling their potential?**

In the survey that fed into the Local Charity and Community Groups Sustainability Report 2015, we asked “Have you considered using social investment as a way of financing your activities”. Only 13% responded yes – 49% stated that they were unsure what social investment was.

This strongly indicates a lack of awareness of the potential benefits social investment among local charities and community groups.

*22 August 2016*
1. **About Locality**

1.1. Locality is the national network of ambitious and enterprising community-led organisations, working together to help neighbourhoods thrive. Our network is a strong, collective voice inspiring community action to create a fair and diverse society where local people determine their future together. We also run [My Community](http://locality.org.uk/members/join/join-locality/locality-lifeboat/) providing resources, inspiration and advice on Community Rights, Neighbourhood Planning and Our Place, enabling communities to have influence and control over local assets, services and development.

1.2. We represent over 600 community-led organisations, who operate in neighbourhoods across England, undertaking a wide variety of different activities, reflecting the communities they serve. What unites our members is a sense of ambition for their local neighbourhood, an enterprising approach to finding local solutions to local problems, and a clear sense that this activity should be community-led and based on self-determination. They act as “anchors” within their community, providing stability, flexibility and a responsiveness to local need.

2. **Summary**

2.1. Locality welcomes the opportunity to respond to the Committee’s wide reaching and important inquiry on charity sector sustainability. Throughout this response we highlight the distinctive role Locality members, community anchor organisations, play in civil society. Through service delivery, asset management and enterprise, capacity building and community development, they support positive change in their local neighbourhoods, build local social action and develop resilience within their communities.

2.2. We outline a number of pressures currently facing the charitable sector, with a particular focus on community anchor organisations, including: public sector cuts, reductions in grant funding and trends in commissioning which prohibit community sector delivery; challenges in developing sustainable income streams, including through community asset ownership; and gaps in governance capacity which can contribute to organisational crisis.

2.3. Throughout this response, we draw on our expertise in supporting members through organisational crisis as part of our ‘Lifeboat programme’. This service supports members facing severe financial crisis and risk of closure; in 80% of

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cases the Lifeboat helps the organisation avoid closure, and in cases where this is not possible it works with the organisation to make sure that key services are preserved and to limit the impact on the local community.

2.4. Despite the challenges of the current environment, there are a number of areas of opportunities which could be realised for the community sector. The devolution agenda has the potential to bring about a renaissance in neighbourhood level governance and community empowerment, as well as the opportunity to harness the capacity and expertise of local organisations in public service transformation. However, we also outline a number of risks from devolution, including through lack of engagement with communities and community sector organisations.

2.5. The community asset transfer agenda is also an important opportunity for developing the sustainability of civil society organisations. However, we are concerned that gaps in support for asset transfer, combined with public estate asset disposal driven by a need for local authorities to generate revenue, means that opportunities to safeguard valued common assets by transferring them into community ownership will be missed.

2.6. We make a number of recommendations for the Committee to consider, aimed at local and central government, which would build sustainability in community organisations and secure the sector’s role in supporting thriving, empowered and resilient neighbourhoods. These recommendations are focused on strengthening community asset ownership, opening up commissioning to local organisations, and ensuring that devolution offers new opportunities for community empowerment.

3. The purpose of charities

3.1. Community anchor organisations – many of which are Locality members - are independent community-led organisations which operate in a local area, firmly rooted in a sense of place, and committed to achieving positive economic, social or environmental change. Part of the wider voluntary, community and social enterprise (VCSE) sector, community anchors are a key part of the fabric of civic society. Through service delivery, asset management and enterprise, and capacity building and community development, they support and build positive change in their local neighbourhoods.

3.2. Community anchor organisations come in different forms: some are organisations with roots in the Settlement movement in the late Victorian age and have been providing local services for well over a century; others come from a social action centre tradition, or from the development trusts movement in the late 20th century; and others are long-standing charitable organisations, newer social enterprises or Community Interest Companies. The form of the

organisation, however, is less important than the practice and the methods they employ. They are often the driving force in a local neighbourhood for community renewal, the facilitator and supporter of community activity, and a way that local people can be involved in determining neighbourhood priorities.

3.3. They are typically flexible and responsive organisations, providing multi-purpose and holistic solutions to local problems and challenges. They act as “anchors” because they are there for the long term, providing stability as the external environment changes, and finding new ways of working as circumstances change around them. Although independent organisations, they work interdependently with other agencies and organisations operating in the local area in the public, private and VCSE sectors.

3.4. In increasingly uncertain times, the role that community anchor organisations play is more important than ever. They stimulate active citizenship and civic participation through volunteering and community organising, and act as a catalyst for community cohesion, bringing together diverse groups to work together for the local neighbourhood. Community anchors build and harness a huge amount of social capital in their local communities. Through their strong relationships with vulnerable and excluded groups locally, they support people to have a voice in their local community and shape neighbourhood priorities. Community anchor organisations also often play an important role in reinvigorating common assets locally, which ensures that communities can directly control the important activity in their neighbourhoods.

3.5. Community anchor organisations also support other community organisations to grow and thrive within their local area. In many neighbourhoods there are several community groups or organisations representing communities of interest or particular geographical areas. Community anchor organisations support these organisations through community capacity building, and helping groups develop their skills, organisation, representation and involvement. They act as facilitators or catalysts for wider community action, often through their physical assets, for example through hosting smaller organisations in their buildings, but also by convening different interests and providing an important infrastructure role for others.

3.6. In addition, community anchor organisations have a role to play in bringing in money and opportunities into a neighbourhood, from the local authority, external funders and other agencies. When community anchor organisations bring inward investment, they are typically much better than public sector agencies at ensuring that that this wealth is distributed back into the local economy – for example, by employing local people, or partnering with/supporting local businesses and social enterprises. In this way they act as local economic multipliers. Community anchor organisations also play an important role in channelling funds to other local organisations, acting as a community hub and enabling the creation of mutually beneficial, reciprocal working relationships and partnerships.
3.7. Many community anchors also provide local services, and they also act as a gateway to helping people access the other services they need. Many organisations (including over half of Locality’s members) deliver public sector contracts, across areas including children’s services, youth services, social care, public health, and employment and skills, reflecting the interdependence between anchor organisations and the public sector. Community anchors draw on their local knowledge and trusted relationships within the community, to build services around local needs, and they are able to weave any public service contracts into the programme of services and activities that they are already providing, meaning that they have the flexibility to take a holistic approach to support the range of needs a person might have.

**Key challenges for community anchors in fulfilling their role in civic society:**

3.8. There has been a welcome political commitment in recent years to devolving and decentralising power, encouraging volunteering, and supporting people to take control of the places they live, including through the powers introduced by the Localism Act. However, the environment within which community organisations are operating is becoming increasingly challenging, with implications for the sustainability and viability of this vital sector. Whilst community organisations have faced a perpetual challenge in maintaining financial stability, these issues have become increasingly complex and pressing. This includes increasing cuts to funding and grants, scaling up and financial risk requirements in delivering public service contracts, and rising social need.

3.9. Many community organisations have found sustainable methods of maintaining their services and activities, including by developing their assets and enterprising approaches to income generation. Indeed, the organisations which have best adapted to the impact of the economic downturn which followed the financial crisis have assets which generate revenue, including renting buildings or hosting new services. However, for many, the extent of cuts, allied with increasing demand, has meant that they are increasingly vulnerable to closure, with both financial reserves and resilience running low.

3.10. There is also a current lack of flexible finance for organisations seeking to take on community assets, and a gap in support for the process of community asset transfer. Given the current drive for local authorities to generate revenue through selling off publically owned assets, we are concerned that

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315 From 2010/11 – 2012/13 the value of income from grants and contracts to the voluntary and community sector has fallen by £1.7 billion, NCVO Civil Society Almanac [http://data.ncvo.org.uk/a/almanac15/introduction-2/](http://data.ncvo.org.uk/a/almanac15/introduction-2/)


317 At the Spending Review 2015 George Osbourne announced changes which will allow local authorities to retain all funds from selling assets and use them to maintain services delivery, [http://www.independent.co.uk/news/uk/politics/autumn-statement-authorities-told-to-sell-assets-to-fund-everyday-spending-a6749071.html](http://www.independent.co.uk/news/uk/politics/autumn-statement-authorities-told-to-sell-assets-to-fund-everyday-spending-a6749071.html)
opportunities to develop a sustainable income stream for the sector and secure valued public buildings and spaces, will be missed.

3.11. An additional challenge facing civil society is that local VCSE infrastructure – a common source of advice and support – is increasingly squeezed, and Government interest and capacity for providing further centrally funded support programmes is waning. There is currently a dearth of policy solutions and creative approaches for ensuring sustainable investment in the sector and building a stronger, ‘bigger’ society.

4. **Pressures and opportunities**

4.1. As explained above, a key challenge facing organisations across the VCSE sector is a context of shrinking budgets and increasing demand for services. This is a double bind which affects all civil society organisations, big and small, right across the sector. Yet for community anchor organisations, the pressure can be particularly acute. Research from NCVO has demonstrated that small and medium sized organisations (with incomes between £25000 and £1 million) have been hardest hit by cuts to public funding since 2008. At the same time, very large charities (with incomes above £100 million) grew their income from government (in contracts and grants) in 2013/14.

4.2. The vulnerability of smaller organisations to changes in the public sector funding environment is a trend which Locality has witnessed in delivering our ‘Lifeboat programme’. This is a service we provide for members who are facing severe financial crisis and are at risk of closure. The service provides members with access to expert support, from a confidential telephone line to on-site practical support and crisis management, in order to turn organisations round. Through this work, we have been able to gain a deep understanding of the challenges faced by community organisations, and identify a number of pressure points which are causing financial instability in organisations.

**External funding and commissioning environment:**

4.3. Combined with the overall picture of cuts to income from public sector contracts and grants to small and medium sized organisations, there are a number of important commissioning trends which are impacting community sector organisations delivering public sector contracts:

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320 From 2010/11 – 2012/13 the value of income from grants and contracts to the voluntary and community sector has fallen by £1.7 billion, NCVO Civil Society Almanac [http://data.ncvo.org.uk/a/almanac15/introduction-2/](http://data.ncvo.org.uk/a/almanac15/introduction-2/)
- **Larger contracts**, covering multiple geographical areas and specialisms, which exclude all but the largest organisations from bidding. This is often the result of financial pressures to local authorities, which can result in scale and standardisation of public services in order to reduce costs associated with multiple, smaller contracts. However, counter-intuitively a smaller number of larger contracts can ultimately prove more costly to manage than a larger number of smaller contracts, due to issues of complexity. A ‘one-size-fits-all’ approach also has implications for service quality, as complex needs are often intractable to economies of scale.

Scale in commissioning can also often mean that community organisations are delivering public service contracts as part of a supply chain which can also bring financial pressures, including through a lack of referrals and inability to plan cash-flow.  

- **Contracts which do not fully cover the cost of providing the service.** Locality’s 2014 member survey, for example, found that of organisations delivering public service contracts, 22 percent were making a loss on contracts and were effectively subsidising the service.

- **Financial risks and unsustainable cash flow requirements in contracts**, including Payment by Results (PbR) where organisations are only paid after outcomes have been achieved. Depending on the proportion of the contract which is PbR, this can create cash-flow problems and mean that upfront service costs have to be funded through reserves or other income sources. Payment outcomes can also take months, or even years, to be achieved, particularly working with groups of service users with complex needs.

4.4. Through our work with members through the Lifeboat programme, we know organisations are adopting increasingly unsustainable methods of survival in responding to these external funding pressures, including use of reserves and taking an increasingly short-term crisis management approach to their financial planning. We consistently see that the dedication of trustees, staff and volunteers in putting in extra time and effort into an organisation is a key part of survival strategy. However, this can usually only work in the short-term and it is often when the pressure on key individuals becomes too significant that the viability of an organisation is put at real risk.

4.5. The financial outlook for public services is set to worsen. With local authorities now expected to generate the majority of their income through revenue generated locally, as the central revenue support grant is phased out by 2020,
this will generate additional financial pressures for local public services. We are concerned about the equalities impact which moving to a system of business rates devolution will have on those areas which are less able to raise revenue through business rates receipts. Even with a potential economic ‘reset’ through a post-Brexit budget, the public spending picture for local authorities will bring continued challenges for VCSE organisations in meeting rising social need within an increasingly pressured commissioning environment.

5. Governance and leadership

5.1. The community sector is sustained and driven by the dedication and passion of trustees who put time, energy and expertise into the organisations they lead. However, there are a number of underlying challenges in establishing good governance in the community sector, which combined with the other pressures outlined above, can contribute to organisational instability.

5.2. Our learning from Lifeboat has highlighted frequent key skills gaps on Boards, especially around finance, business management, legal knowledge, and HR. It is often incorrectly assumed that some of these skills are easily transferrable from the private sector, however this still requires appropriate board development and training. Charities and social enterprises can often have more complex business models and operating environments than the private sector and can be easily underestimated.

5.3. Locality’s Lifeboat has identified a number of specific gaps in governance and financial capacity and support, which can flow from these wider challenges, and which can underpin financial crisis:

- **Lack of governance capacity and support**: weak governance and/or Boards not working effectively, with Trustees having limited knowledge of their organisation’s business model; ineffective governance and management of a major capital project (leading to overspends, cash-flow issues and disputes); no strategy in place to address loss of a stable source of funding and contracts, such as identifying new income sources and/or making savings, and a limited understanding of new types of contracts and related financial implications.

- **Financial capacity and skills**: Unclear or lack of financial reporting (such as cashflow forecasts, management accounts and balance sheets); build-up of debt including PAYE and VAT and a lack of understanding of VAT; over-reliance on one or two people with financial knowledge; out of date or not properly set up accounting systems.

5.4. Many of these issues would be greatly improved by training and support programmes for trustees. For example, Locality have developed an early warning guide for trustees. This provides trustees with key questions for an organisational health check which can expose where their might be a need for early stage
support, or a more intensive intervention to stave off crisis.\textsuperscript{322} Peer-to-peer schemes, such as Locality’s trustee network, can also prove very effective for growing trustee capacity and offering skills exchange and learning opportunities for trustees.

6. **Resource management**

6.1. There are a number of particular characteristics inherent in the community sector which make long-term financial stability difficult to achieve. These include:

- Few options available for (re)financing and capital – especially when compared to private companies;

- Assets are usually restricted in some way, for example in relation to financial clawback and inappropriate leasehold terms;

- Trading and business activities carried out by these organisations typically have low margins, with limited potential to increase significantly;

- Limited recovery of core costs and overheads or ability to build reserves from restricted funding.

6.2. A major challenge relates to the fact that the community sector is currently very under-capitalised, both in terms of assets and reserves, and therefore vulnerable. The key to establishing long-term investment sustainability for the sector is therefore through developing a long-term capital base.

6.3. A key route for financial sustainability is through asset ownership, which, when done well and properly supported, provides a sustainable foundation and robust financial basis for the growth of community and civil society organisations. In 2014, Locality members held £653 million worth of assets, providing an incredible source of strength and resilience as well as supporting a vast array of different activities and services operating out of the assets. Indeed, the organisations which have best adapted to the impact of the recession have assets which generate revenue, including renting buildings or hosting new services.\textsuperscript{323}

6.4. However, there is currently a real gap in the availability of funding for community organisations to take on community assets, as well as a lack of support and central policy direction for community asset transfer. At the same time, central government are encouraging asset disposal as a key way in which local authorities should generate revenue locally, meaning there is a huge risk that


valued public buildings and spaces will be sold off permanently to the highest bidders, rather than transferred into community ownership.

What lessons can be learnt from past mergers or dissolutions of charities:

6.5. Our experience delivering the Lifeboat programme and working with organisations facing crisis is that often the long-term sustainability of an organisation in these circumstances can best be ensured by restructuring and creating efficiencies as an important first step, rather than purely through seeking new resources. In fact, an organisation facing crisis point will often be in the best place to take the steps towards real organisational change that is required to create a stronger, more sustainable organisation. The average cost of Lifeboat support is £5,000, demonstrating that small, targeted and relatively low cost interventions can often deliver more valuable and more sustainable outcomes.

6.6. In the vast majority of cases in Lifeboat, the most successful immediate plan of action will include effective measures to reduce the organisation’s overall costs in line with secured income. In the medium to long-term, plans will include developing new sources of income but when an organisation is in crisis, the immediate focus needs to be on reducing costs. Typically, organisations will often seek additional funding or income streams before they make difficult decisions to cut staff numbers or services. However, making these difficult decisions is often an essential first step to stabilising the organisation and growing it back again. After these steps have been taken, there is then the potential to seek other opportunities to grow the organisation – such as asset ownership, enterprise and new funding sources.

6.7. Whilst mergers between organisations may often appear to be a viable solution to pool resources or scale up services, particularly in the context of decreasing public sector spending, it should be cautioned that this can often not be a sustainable solution. These actions might build temporary sustainability but it often subverts purpose and can lead to mission drift in the longer term and potentially failure to meet original needs locally. This will therefore lead to the need for new grassroots organisations being set up in their place in order to address this unmet need.

7. Social investment

7.1. Social investment can play an important part in a diverse mix of funding and finance. However, we are concerned that social investment is often used by key stakeholders, including the Government, as a panacea for declining income levels for the sector. Rather, social investment should be seen as a part of the solution alongside intelligent procurement to achieve both value for money and the desired social outcomes, and other sources of income generation. Some activities of many charities are not suitable for social investment, and not all
services can be sensibly monetised. In addition, we feel that there is a risk that
the major focus of social investment is on the needs of investors rather than the
social outcomes – much of the existing finance that has entered the system has
not been cheap enough or at a small enough scale to benefit local charities and
social enterprises.

7.2. Whilst social investment can be an important option for VCSE organisations,
mistakes have been made in the development of this market. For example, some
Locality members who accessed debt finance (for example, through programmes
such as Community Builders and Future Builders) have found themselves heavily,
and in some cases unsustainably, indebted. Social Finance intermediaries have
found they need to charge high interest rates to reflect risk and their own
running costs and as elsewhere in the financial market place finance for the most
innovative new projects is limited.

7.3. Lessons are being learnt about the levels of sustainable gearing and the
sustainable level of finance charges for voluntary and community sector
organisations, and there has recently been a more welcome renewed focus on
more modest size investment which is more appropriate to most organisations.
However, there remains a significant gap in blended models of social investment
– which offer grants alongside loan finance – which there is a real need for in the
community sector.

Social impact bonds:

7.4. There are a number of reasons why Social Impact Bonds can often be
inaccessible or inappropriate for community organisations. Below we outline
some of these challenges, and offer some recommendations of how to mitigate
them:

- Complex and often protracted contract negotiation to establish baseline and
outcome payments, as well as the requirement for bespoke legal documents,
often require costs and skills which are beyond the capacity of community
organisations. This process can be further complicated if there is a requirement
to establish a special purpose vehicle for contract delivery. This difficulty can in
part be mitigated by good access to grant funding for contract readiness.

- The financial risk which is transferred through the payment by results model is
often borne largely by the weaker partner. This requires sophisticated
management information systems to evidence performance and manage risk. In
developing SIBs, contracts should be designed so that outcomes payments are
structured to reflect additional risk. Support for the establishment of
management information systems would also be helpful to community
organisations delivering through SIBs.
• The debt finance requirement within SIBs to fund working capital adds to costs of the organisation, and for smaller organisations with limited assets on their balance sheets this may be difficult to obtain. Organisations may have to grant security over their assets which may jeopardise their wider operations. It is therefore important to ensure adequate supply of unsecured debt finance from providers who understand community organisations.

• SIBs have tended to be used for larger contracts which means they are not accessible to smaller local organisations, despite the fact that local service delivery often provides the highest quality services, most reflective of local need, and offering best value for money. Although in theory contracts can be delivered by consortia of local organisations, these present other challenges and issues and community organisations at the bottom of a complex contracting chain have reported very poor experiences to date.

• Given that SIBs tend to favour larger established and better capitalised organisations, we recommend that funding is established specifically to commission smaller and newer organisations to trial new and innovative approaches.

8. **The role of the Government**

8.1. There is a key role for government in supporting the growth and sustainability for the sector in a number of ways:

• **Support for Community Asset Transfer**: As has been explained throughout this response, asset ownership can provide a sustainable income base for VCSE organisations, as well as a base from which to build community activity and local social action.

The government have demonstrated commitment to empowering communities through community asset ownership, via the development of policies including the Right to Bid and national programmes supporting community asset transfer such as the Community Ownership and Management of Assets programme. However, there is currently a gap in central government support for encouraging local authorities through the process of community asset transfer. Through our work delivering the Asset Transfer Unit we know that the process usually takes many years and has multiple complicated issues to resolve in each case involving financial and legal issues. Dedicated and specialist support available to support asset transfers is the key to effective and sustainable asset transfers. Local authorities should also ensure they have a community asset transfer policy in place which is integrated in their strategies for rationalising the public sector estate.

There is also a lack of financial support available for community organisations seeking to take on assets, in particular pre-feasibility funding which would support the development of viable plans.
A key route for securing this type of funding could be through the opportunity of the Dormant Assets Commission, which is currently considering how to make use of dormant funds from stocks and shares. Locality have been calling for investment in community assets ownership as a key route to making sure this funding supports long-term sustainability for civil society organisations.

- **Commissioning:** There are a number of ways in which government can shape the commissioning environment to better support delivery of public services by small and medium sized organisations.

We welcome the recent review undertaken by the Minister for Civil Society into the barriers to delivery by small and medium sized VCSE organisations. As part of this review Locality have worked with partners across the sector, led by the Lloyds Bank Foundation, to develop a series of recommendations. A copy of this recommendations paper has been submitted to the Committee as part of this inquiry, and Locality fully support the recommendations made. These recommendations include:

- Fully implementing the recommendations of Lord Hodgson’s review of the Social Value Act and introducing the requirement on local authorities to account for social value in their procurement, rather than purely ‘consider it’;
- Supporting Commissioners to work with small and medium sized VCSE organisations through expanding the reach of the Commissioning Academy, for example by subsidising places for local authorities;
- Adopt a ‘simplest-by-default’ approach to funding mechanisms and publish best practice guidance for commissioners, recognising the value of grant funding and upfront payment within contracts to encouraging delivery from small and medium organisations;
- Recognise the value of disaggregating contracts into smaller lots, including by producing best practice for commissioners and encouraging a ‘local by default’ approach to service design.

What is the likely impact of greater local devolution on the charitable sector, or particular types of charity/what are the opportunities and challenges associated with local devolution?

8.2. There are a number of opportunities offered by greater devolution in England. Devolution offers the potential for public service transformation and greater involvement of people and local organisations in commissioning, and a renewed focus on neighbourhood level governance. Following on from the powers established through the Localism Act, devolution could be an opportunity for strengthened community rights and powers which give people greater power over local decision making. By devolving resources and decision making to a local level, devolution could also be an opportunity for developing the social economy, where economic growth and new investment is driven by local priorities. Giving local areas real control over decision making and spending will help to ensure
that economic growth prioritises social inclusion, creating economies which truly work for the people in them.

8.3. In a joint publication with NAVCA, Locality have outlined the potential of devolution and the fundamental role which VCSE organisations should play within this landscape. To date, there has been a concerning lack of engagement with people and communities in the development and implementation of devolution deals. The VCSE sector is an essential partner for local leaders in a number of important ways, including: public service reform, including through developing locally-led models of delivery; strengthening accountability by facilitating engagement with communities and supporting people to have their voices heard; and in shaping the development of the social economy, securing growth which is rooted in social justice and equality. Without engagement with the community sector and wider civil society, alongside a commitment to ‘onward devolution’ and devolving power and resources to the most local level possible, there is a real risk that devolution will be a technocratic exercise which simply shifts marginal responsibilities between different parts of the public sector, adding new layers of sub-regional governance which actually push influence, power and resources away from local people.

5 September 2016

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Introduction

London Funders, Greater London Volunteering (GLV) and the London Voluntary Service Council (LVSC) are pleased to submit evidence to the Select Committee on Charities.

Our submission is on behalf of the multi-stakeholder review team that produced *The Way Ahead* (April 2016), the final report of a year-long review into the future of civil society in London, and how it should be supported. Whilst the review focused on London, its findings and recommendations are relevant across England and Wales, as through the review, we engaged with a broad range of civil society organisations to ensure a breadth of input shaped our conclusions and recommendations.

For us, the overriding question in any debate on charity sustainability and governance is: how do we achieve better lives for people? This question drove the development of the recommendations within *The Way Ahead*.

We have only addressed those areas of interest to the Committee that were specifically included within the scope of *The Way Ahead*. We would be pleased to provide oral evidence should the Committee find this useful.

Terminology

The Committee uses the term “charity”. *The Way Ahead* looked more broadly at “civil society”, which includes charities. We developed the following definition:

> “Civil society is where people take action to improve their own lives or the lives of others and act where government or the private sector don’t. Civil society is driven by the values of fairness and equality, and enables people to feel valued and to belong. It includes formal organisations such as voluntary and community organisations, informal groups of people who join together for a common purpose and individuals who take action to make their community a better place to live.”

In this submission, when we refer to “communities” we mean communities defined by their geography and communities defined by common interests and/ or needs.

Question 1: Purpose of charities

**Purpose**

*The Way Ahead* proposes that the main purpose of charities should be to enable communities to become strong and self-reliant. Specifically that charities should:

- Enable communities and individuals to find solutions to the issues they face
- Fill gaps in provisions which communities can’t or don’t want to provide themselves
• Campaign and influence decision makers on issues of concern to communities

**Whole systems approach**
The role and purpose of charities cannot be seen in isolation, in the review team’s view. Charities should be part of an integrated system that works to improve peoples’ lives. National governments, local government, health commissioners, independent and statutory funders, businesses, politicians and communities themselves each have a role to play, alongside charities, to improve the lives of the people of England and Wales. They are all part of the system.

The diagram below summarises our vision of this integrated system.
Whilst it is sometimes said that what makes charities distinctive is that they are “values driven”, we feel that the system as a whole should be driven by common values: transparency, fairness, equality, openness, trust and accountability.

**Volunteering**

The evidence gathered through the review and set out in the report *The Change Ahead* (December 2015) found:

- There are multiple routes to volunteering, with no easily accessible route map for those looking for opportunities
- Volunteers range from the well qualified to those seeking to develop their skills to enable them to take up jobs
- Frontline organisations whose business models are based on employing paid staff are turning to volunteers to address capacity issues, but there is little evidence of how they are adapting their business models accordingly
- Charities need to decide whether the support they provide to volunteers is a service in itself, providing, for example skills development and health improvement opportunities whilst benefitting from the value that volunteers bring to charities and their service users

**Question 2: Pressures and opportunities**

**Pressures**

*The Change Ahead* summarised the evidence base on which the recommendations of *The Way Ahead* were formed. The key messages from the evidence are:

- Communities’ needs are changing rapidly: demand is growing and the issues that service users are experiencing are becoming increasingly complex
- The data on the size, nature, structure, contribution, impact and value of charities and civil society more widely, is kept in multiple places, and is difficult to access and analyse in a coherent way, making it hard for charities or for strategic bodies such as government, to make informed decisions about the future
- Charities consistently report needing help with raising income, developing partnerships and collaborations, demonstrating impact, business functions such as IT, HR and social media. They also report difficulty in accessing usable intelligence about new initiatives, best practice, influencing and campaigning, and relevant information about the policy environment
- Charities can struggle to “be heard” by decision makers, which is not helped by the fact that the language it uses makes it difficult for those outside of the sector to understand
- Initiatives such as the “Lobbying Act” (2014) and “gagging” clauses in public sector contracts are impeding the sector’s independent voice

The issues of funding and how funders operate are addressed in Resource Management (below).
Opportunities
The pace and depth of change in the environment within which charities operate, whilst a challenge, is also an opportunity. This understanding led us to conclude that now is the time for a root and branch rethink about the role of charities. The Way Ahead proposes a new vision which would allow us to embrace this opportunity.

Question 3: Innovation

Pragmatic co-production
We believe that a key driver of innovation is for the whole system of which charities are a part, to be driven by the communities they serve. In The Way Ahead we developed the idea of “pragmatic co-production” to enable this to happen.

In pragmatic co-production, communities would have an equal voice with funders, commissioners and charities in developing a shared understanding of need and in crafting solutions, whilst understanding the constraints such as limited funding, public policy and legislation. In our view, if communities had genuine equality in defining need and how it could be met, innovation would follow. There are already examples of pragmatic co-production in fields such as children’s disability where parents are actively engaged with planning and shaping services. We believe the approach should be adopted across the whole sector.

Funders, both public sector and independent charitable trusts, have a key role to play in driving the adoption of pragmatic co-production, not least by using the approach themselves to shape their own work.

Systems change
Charities cannot be innovative unless the system in which they operate enables this. For example, charities cannot be innovative if their funders are not aligned with what charities and those they serve wish to achieve; or if public sector commissioners are not synchronising their efforts with other funders working with particular communities; or if public policy and legislation does not dismantle barriers to progress.

If pragmatic co-production and the principle of system-wide change are adopted, it will largely address the Committee’s question about how charities can be properly accountable to their beneficiaries and donors, by making them equal and active partners in the system.

Question 5: Governance and leadership
Throughout the review which led to The Way Ahead we were conscious of the inconsistent quality of governance and leadership within the charity sector. We believe Boards and leadership teams have the core responsibility for ensuring high quality in how charities work, what they deliver, and in driving improvements.
The availability of numerous tools and courses on governance is not leading to a steady improvement in the consistency and quality of charity governance. Something more proactive is needed, with peer support and challenge at its heart.

The primary focus of the Review was civil society support, or what are often referred to as “infrastructure organisations”. Our governance and leadership recommendations are aimed at them. However, many of the recommendations below could be adapted to the wider context of charities.

To improve the quality and consistency of governance in civil society support organisations in London we propose:

- Each local support organisation should identify an “Effectiveness Champion” from its Board of Trustees, who would be enabled to drive the improvement of quality of their governance, and who would act as critical friends internally, to ensure that Boards were reflective and effective
- Effectiveness Champions should be supported by a London Hub* which would provide resources, training, networking and mutual learning opportunities
- Effectiveness Champions should be brought together in an Effectiveness Network, part of the remit of which would be to “co-produce” governance tools and resources

* The Way Ahead proposes the establishment of a London Hub which would provide support for civil society at a pan-London level; its functions are outlined in the report.

Question 7: Resource management

Financial sustainability

The Change Ahead identified the following challenges to charities’ financial sustainability:

- Large scale reductions in public funding, which has implications for independent as well as statutory funders
- The lack of a strategic, pan-London approach or response to public sector funding cuts, either from public funders themselves or from the independent funders that form a key part of the “funding ecology”
- Few funders are willing to fund the core costs of running a charity
- Funders can prioritise innovation over tried and tested ways of working
- Charities are turning to other forms of income generation such as individual giving, and are being encouraged to explore social investment and social enterprise models. This requires very different advice and support.
- Several reports call for funders to collaborate and work more strategically together, with little exploration of what the barriers are to working in such a way or why, despite these calls having been made over the course of several years, this approach has not yet been widely adopted

Civil society support organisations in London felt funders could work differently, e.g.:
London Funders — Written submission (CHA0090)

- Simplify evaluation requirements
- Develop a shared approach to funding and evaluation across funders
- Develop a better understanding of outcomes and impact evaluation, and what it involves
- Share knowledge from evaluation data they have collected, and use this to inform sector practice
- Fund evaluation
- Take risks
- Recognise and fund charities’ need for support

Previous reviews and reports talk extensively about the civil society sector’s need to get better at demonstrating impact, but there is little acknowledgment that many charities rely on multiple sources of grants and contracts, with each funder having a different take on outcomes and different reporting requirements. Funders themselves may also lack the right knowledge and understanding of measuring impact.

**Sharing best practice**
The need for access to best practice which can be easily taken up came up repeatedly in the evidence gathering phase of our review. In the London context, we believe that the function of extracting the learning from best practice so that it can be easily used should be the role of local support, the London Hub and independent funders.

London is the European Volunteering Capital and the Committee may be interested in a Conference in December 2016, hosted by GLV, which will share learning on volunteering from London and abroad.

**9 Sources**


**10 In conclusion**

Charities cannot develop and adapt in isolation. For charities to be sustainable, accountable and effective requires the system of which they are part to reform as a whole, with each partner in the system operating on the basis of equality and collaboration. *The Way Ahead* review team believe this is the best way of charities to make the most impact on those they exist to serve.

*5 September 2016*
I just want to make a couple of brief but important points, with expansion by reference to contributions in the House.

The main point I want to make is that charities have had a rather unfair press lately. There have been some examples of poor practice, but this is not at all representative of the sector and the great majority of charities do incredibly valuable work, often on a voluntary basis. They do need to raise money, and the great majority of charities have a pretty unblemished record in doing this.

See also speeches by Baroness Young of Old Scone and myself in the debate on the Third Reading of the Charities Protection and Social Investment Bill which can be found here:

https://hansard.parliament.uk/Lords/2015-09-14/debates/1509147000447/Charities(ProtectionAndSocialInvestment)Bill(HL)#contribution-1509147000120

There are also the sort of points that Lesley-Anne Alexander, retiring Chief Executive of RNIB, has been making recently to the effect that we don’t need more regulation, particularly in the area of fundraising - just maybe better regulation. Charities are by no means under-regulated or unaccountable. Lesley-Anne makes the point that RNIB is regulated by and accountable to: The law; the Privy Council; the Charity Commission; the Care Quality Commission; Ofsted; Accounting standards; the VAT man; the pensions regulator; the competition commission and the EU. For an antidote to criticisms of the charity sector, see the interview with Lesley-Anne in Third Sector here:

www.thirdsector.co.uk/lesley-anne-alexander-its-time-shed-hair-shirt/management/article/1399537

6 September 2016
The Lotteries Council — Written evidence (CHA0166)

The Lotteries Council represents hundreds of charities and good causes across the country who operate society lotteries to raise funds to support their work. We warmly welcome the inquiry by the House of Lords Charities Committee.

1. EXECUTIVE SUMMARY

1.1 The Lotteries Council believes that society lotteries offer charities a vital and relatively simple way of raising funds, particularly for on-going core services, and, as such, make an important contribution to the financial sustainability of charities.

1.2 The Lotteries Council believes better regulation of society lotteries could deliver ever-increasing financial support to a vast range of charities, large and small, fashionable and unfashionable and at the same time without any restrictions on the use of the funds.

1.3 The Lotteries Council is calling on the Government to announce its plans for the regulation of society lotteries – ideally proceeding with a lighter regulatory regime - permitting higher prizes, more ticket sales, a lifting of the present annual income cap and aggregating the 20% minimum contribution to charity rule over a longer period for start-up lotteries.

1.4 The Lotteries Council believes that this boost to the revenues of the nation’s charities can be achieved whilst protecting the National Lottery.

2. ABOUT SOCIETY LOTTERIES

2.1 The Lotteries Council represents hundreds of individual society lotteries in Britain. It has a very diverse membership, including many well-known national charities providing services, support and in some cases world leading research. For example, society lotteries support cancer research, ex-servicemen, the disabled and animals, as well as more locally based organisations such as hospices, air ambulances and football clubs.

2.2 Our members tell us that the great benefit of the income they receive from their society lottery is that it can be used to support the core activity of the charity. Many funds raised by charities have to be to be used for specific purposes. But the day to day activities of charities need to be reliably funded if they are to benefit the people they are seeking to serve. Lottery income gives charities a secure, no strings attached, income for their core purpose.

2.3 There are a number of different kinds of society lotteries, including new, so-called umbrella lotteries, such as the Health Lottery and the People’s Postcode Lottery, who raise money through a branded lottery and then distribute the funds through trusts to
which people can apply for support. This model can greatly benefit those charities
which otherwise might struggle to gain popular support from the public for their
activities. Umbrella lotteries are also used by smaller charities and good causes, who
fear the regulatory burden of running a lottery and who come together for professional
support while branding their own tickets in the name of the good cause they support.

3. SOCIETY LOTTERY FUNDRAISING

3.1 In 2014/15, the society lottery sector generated a record £205 million for good causes
across Scotland, England and Wales, a substantial increase on the £155 million raised
for good causes in 2012/13. Thanks to the loyal and increasing support of their players,
the sector has achieved incredible growth, a clear demonstration that society lotteries
are an increasingly popular model for incentivised fundraising in Britain today. A
thriving society lottery sector can help tackle the financial pressures faced by many
charities and offer financial sustainability as well.

4. PRESENT RESTRICTIONS ON SOCIETY LOTTERIES

4.1 Unlike any other form of charitable giving, the present restrictions on society lotteries
place an actual cap on fundraising. The current limit on the maximum value of tickets
that can be sold for one draw is £4 million with the maximum aggregate value of lottery
tickets that can be sold in any calendar year under one licence standing at £10 million.
Some of the more popular national charities could sell more tickets to their supporters
but are prevented from doing so – with the result that more than one well known
national charity has taken out two licences to satisfy demand and maximise its return to
good causes. This increases the regulatory and cost burden on the good causes and
therefore reduces net benefit.

4.2 Prizes are limited to £25,000 or to 10% of the total proceeds, taking the maximum
permissible prize to £400,000. As the prize money is declared in advance of sales in
order to attract sales, this creates a substantial risk as the lottery then has to sell ten
times the amount of the prize to stay legal. This inevitably drives down the size of prize
offered, which also leads to fewer sales.

4.3 Society lotteries must donate a minimum of 20% of the proceeds from each draw to
their allotted good cause with the remainder divided between prizes and ‘reasonable’
expenses. We believe that the 20% rule is a reasonable safeguard for players that their
money is being spent on their chosen good cause. However, for start-up lotteries, the
minimum can and does create difficulties as they need to invest heavily to build a player
base and gain momentum.

4.4 On average, Lotteries Council members do much better than the minimum 20% -
donating 43% of their funds to good causes, spending 38% on operating expenses.
The Lotteries Council — Written evidence (CHA0166)

(which includes direct marketing and mail shots) and 18% on prizes. However, as demonstrated in the CEBR report (see below), there are significant variances among the proportion of funds going to good causes, prizes and administrative costs — corresponding largely to the length of time an individual society lottery has been operating.

5. EVIDENCE FOR REGULATORY CHANGE – THE CEBR REPORT

5.1 In February 2014, the Lotteries Council and the Institute of Fundraising commissioned a report by the Centre for Economics and Business Research (CEBR) entitled, ‘What have we got to lose? How society lotteries could do even more for good causes’. It examined the contribution made by society lotteries and explored the potential impacts of regulatory change. The CEBR also undertook an extensive survey among Lotteries Council members to establish what changes they believed would help them grow their fundraising activities.

5.2 The report noted that society lotteries had continued to increase their revenues in every year since the financial crisis, at a time when personal giving to charity had faltered. It concluded that at a time when economic circumstances had placed other revenue streams under pressure, the UK’s society lotteries were a ‘welcome source of financial respite’ within the charity sector.

5.3 The CEBR examined the suggestion raised by the Department for Culture, Media and Sport in the announcement of a consultation in December 2012 – namely that the minimum contribution a society lottery had to return to good causes should be changed. The CEBR looked at raising the present minimum contribution from 20% to 28% and calculated that it would reduce the money raised for good causes by £35.3 million as a result of some lotteries ceasing to operate or cutting back on the scale of their activities.

5.4 The CEBR also examined a further proposal that had been raised in the media – a return to capping operational expenditure at 15% of total proceeds, which they concluded would lead to a loss of £88.3 million in donations to good causes.

5.5 The report recommended relaxing caps on prizes - the top priority for 32% of the society lotteries surveyed - and relaxing the restriction on overall revenue - supported by 11% as their top priority.

5.6 The CEBR also surveyed the likely impact of reducing regulation and found that relaxing the minimum 20% contribution rule for new, smaller society lotteries would be likely to encourage more start-ups and growth in the sector. The CEBR found that 41% of the

325 UK GIVING 2012/13, Charities Aid Foundation, March 2014
society lotteries who took part in the survey wanted the relaxation of this rule as a top priority and recommended aggregating it over three years.

5.7 For many society lotteries, relaxing all three of the present regulatory requirements - sales, prizes and the minimum contribution – would be their preferred option. The CEBR report found, on the whole, larger lotteries are more focused on relaxing the constraints on revenues and prizes, while the smaller lotteries have a stronger preference for movement on the 20% rule.

6. **FURTHER RATIONALE FOR REGULATORY CHANGE**

6.1 Society lotteries not only provide valuable income to good causes, but in many cases support charities which deliver services that do not benefit from state funding. Such an example would be air ambulance services, which save lives across Britain but often heavily rely on income generated from society lotteries.

6.2 Another important element to consider is that because the society lottery sector is so diverse the public has the freedom to choose which lottery they would prefer to play and the specific charities – national or local – they want to support.

6.3 The impact of any form of gambling, however soft, is rightly a subject of concern for legislators. Problem gambling among society lottery players is and has remained low according to the available statistics. Figures commissioned by GamCare in 1999\[^{326}\] showed a problem gambling prevalence of 2% among ‘any other lottery’ players, while the most recent figures published by the Gambling Commission in 2012\[^{327}\] estimated a problem gambling prevalence of 1.8% among players. These figures cover the period when, under the 2005 Gambling Act, there was modest deregulation of the society lottery sector which suggests that further relaxation of the rules would not have an adverse impact on problem gambling.

6.4 A further beneficial impact of the society lottery model has been the effect of direct marketing on other forms of fundraising. The charity PDSA received £39.3 million from legacies in 2012, with 60% of these supporters having been initially recruited as lottery players.

7. **RECOMMENDATIONS FOR REGULATORY CHANGE**

7.1 The Lotteries Council would propose the following changes to existing legislation:

\[^{326}\] Sproston et al, 2000: Gambling Behaviour in Britain
[http://www.gamblingcommission.gov.uk/pdf/Gambling%20behaviour%20in%20Britain%20results%20from%20the%20BGPS%202000%20-%20Jun%202007.pdf]

\[^{327}\] Wardle et al, 2014: Gambling Behaviour in England and Scotland
• An increase in the permissible amount of ticket sales for a single draw from £4 million to at least £10 million, enabling larger fundraising charities to raise more money with minimal additional cost
• An increase in the annual income cap on any society lottery from £10 million to at least £100 million to enable larger charities to reach economies of scale and maximise their fundraising
• An increase in prize values from £25,000 to £1,000,000 in order to remove the risk involved in having to sell tickets equivalent to ten times the prize offered, while also putting a cap on prize levels to avoid direct competition with the National Lottery
• The aggregation of the present 20% minimum rule to allow newly created small society lotteries to spread the requirement for draws over an extended period (possibly up to three years), thereby removing barriers to entering the market and reducing the risks associated with setting-up and recruiting players

8. NO ADVERSE IMPACT ON THE NATIONAL LOTTERY

8.1 Some concern has been expressed in the past that deregulation of society lotteries could undermine support for the National Lottery. However, a 2012 report by NERA Economic Consulting, commissioned by the Department for Culture, Media and Sport and the Gambling Commission, did not find evidence supporting the notion that a more buoyant society lottery sector impacted on the National Lottery.

8.2 Moreover, raw data comparing the National Lottery to the entire society lottery sector puts things into perspective. The National Lottery’s income can be counted in billions – with the most recent figures showing the turnover of society lotteries as £437 million, dwarfed by the £7.6 billion revenues generated by the National Lottery.

8.3 Figures appear to demonstrate that society lotteries have been able to grow their player base and charitable contributions alongside the equally successful National Lottery. Indeed, concerns expressed by Camelot, the National Lottery operator, that Richard Desmond’s Health Lottery would poach players away when it was launched in 2011 has not been borne out by the facts. Between 2010 and 2011 gross income of the National Lottery increased by 5.7%. In the following year – the first year of the Health Lottery – the income of the National Lottery increased by 10.5%. In the ten years either side of the launch of the Health Lottery, the National Lottery’s total income has only decreased twice. In the previously mentioned Government-commissioned report from NERA Economic Consulting, entitled ‘Assessment of Lottery Market Issues’, the impact of the Health Lottery and similar multiple society lotteries in the wider lottery market and the distribution of money going to good causes was considered. According to the report, the initial findings of the research indicated: “to date there is no clear evidence that the Health Lottery has taken very significant revenues from the National Lottery or
that it poses a threat to existing society lotteries. It is likely, therefore, to have increased the total amount of money raised by lotteries for good causes.”

8.4 Of even greater importance is the fact that the CEBR report noted that the deregulation it proposed would increase donations to good causes and ‘complement rather than detract’ from the National Lottery. In essence, both society lotteries and the National Lottery can prosper together.

9. WHAT GOVERNMENT CAN DO

9.1 The Government announced it would launch a consultation into the regulation of society lotteries in December 2012. Since then, the House of Commons Select Committee on Culture Media and Sport have conducted their own inquiry and the Department their own consultation. In the summer of 2015, John Whittingdale, the Secretary of State for the Department for Culture Media and Sport asked the Gambling Commission to come forward with proposals for the regulation of society lotteries. We await its conclusions in the hope that it will allow some modest deregulation.

9.2 We believe that the Government should lift some of the present restrictions to make it simpler and easier to raise more money for the nation’s good causes.

27 September 2016
Charity fundraising, microeconomic failure and the paradox of professionalism: a submission to the House of Lords Select Committee on Charities

Abstract: This submission highlights a microeconomic failure within the “market” for donations. It arises from rational behaviour in a market which, unlike traditional markets, requires high profits to be generated in the long run. Uncontrolled, the expenditure on fundraising will continue to grow at the expense both of the donor and the entirety of causes, as typical market mechanisms do not kick in. Increased professionalism within charity fundraising exacerbates this failure. Instead, intervention is required.

1. There are three pressures on fundraising
   1) Raise more
   2) Be more professional
   3) Do the right thing

2. These pressures are not unusual, and the balance of them is a question of governance. They exist in almost any sales function, and charity fundraising is nothing different. However in this sector they have particular nuance and context, and sometimes this needs to pervert behaviour. The desire to raise more can lead to erosion of charitable funds. The desire to be more professional introduces behaviours that are at odds with the public’s understanding of the organisation. And doing the “right thing” has far more consequence for a non-profit organisation, than for most commercial ones.

3. There is a microeconomic failure at the heart of charity fundraising. It is their responsibility to make large surpluses; because those surpluses are what fuels the organisation to provide for its mission. This is in contrast with most commercial organisations, and the markets that they operate in, which end up at the right size according to supply and demand and where necessary government intervention; both ensure that only marginal profits are made.

4. The surplus – the revenue received by the cause once the cost of fundraising is considered, and the means to fulfil their mission – differs across different organisations. Using the NCVO ratio, and taking figures from the NCVO handbook, charities over £1m of income have a ratio of below 4:1; while smaller charities spend proportionately less on fundraising. Again, this is a blend of different organisations, and widely varying individual results. But essentially this means that the larger charities are less efficient at fundraising. This is to a large extent because they use different tools, such as direct marketing. For many organisations direct marketing activity can take many years to break-even and might only return £2 for every £1 spent. For some, it will not be profitable at all.
5. This is not simply an academic observation. In typical industries where a surplus is not, in the long term, sustainable, the less efficient organisations are pressured by those that are, fail to be profitable, and cease to trade. But in charities the surplus is an essential, permanent, part of the interaction when a donor gives to a cause. They understand that a surplus is being generated because that’s what they want their money to go to. But while commercial organisations go bust if they can’t compete, Instead charities are able to erode that surplus. Between 2003/4 and 2013/14, according to NCVO (and using their figures) income from individuals has grown by 2.48Bn; expenditure on fundraising has grown by 1.8Bn. This suggests that the majority of that incremental income has been spent on fundraising, and predominantly by the larger charities. Without wholesale growth in public giving, there is a risk that this leaves less funding for the smaller charities; unlike the commercial sector, the less efficient big organisations can still squeeze out the smaller ones, by simply consuming more of the surplus.

6. The question as to why this happens is not just a microeconomic one, despite being a classic case of tragedy of the commons. There is still cash growth at each of these organisations, satisfying organisational demands for growth; which are in turn typically but not always driven by growing demands from their beneficiaries. So it is rational for an organisation to grow its income even if it is doing so in a way that is not the optimal allocation of that growth, given all the competing causes. Trustees and chief executives would rather raise funds and grow an organisation than recognise that they are consuming public giving that arguably should be channelled elsewhere; indeed it is not just their preference but their duty to address their cause, not the wider picture.

7. Moreover there is no certainty that the total stock of charitable giving is fixed. It has shown growth, and arguably that growth is driven in part by fundraising and marketing activity; the UK leads the world in innovation in fundraising. But it stands to reason (and is supported by research) that donors have some accounting of their charitable giving, and so a donation to one organisation is in part cannibalising other giving.

8. What is clear is that there is no natural stop on the microeconomic failure. Taken to its full outcome, larger organisations — using professional techniques, behaving rationally — will continue to grow at the expense of efficiency; avoiding the controls that commercial organisations face; and in turn damage the willingness of donors to give.

9. Instead, the compact between donors and charities need different tools. While fundraising ratios are an excessively blunt measure, there is a case for transparency to ensure that donors understand the costs involved in their donation being solicited. Further, there is an argument for price-fixing at the margin; even — to address the public good of maintaining that surplus — a “cartel for good”.

10. Ultimately, fundraising is different from sales, and yet it is increasingly managed as such by professional sales executives. Charities inhabit the “third sector” and are formed to address failures in governmental or commercial provision. There is a risk that the professionalism of the mechanism of seeking funding turns the charities into proxies for government or business, rather than maintaining their third sector nature. Or that the truly voluntary organisations, typically the much smaller, are squeezed out; eventually with the sector bifurcating into commercial non-profits and voluntary organisations, and the “charity” label becomes meaningless.
11. This submission doesn’t have the answer. It merely intends to highlight a problem that is idiosyncratic to the charity sector, and which should be considered in any reflections on the role of legislation and governance.

30 September 2016
Overview

1. Our research group, based in the Faculty of Social Sciences at the University of Stirling, has conducted work modelling charity risk using administrative data from the Office of the Scottish Charity Regulator (OSCR). The aim of this submission is to present evidence from our research examining the nature, extent and determinants of charity misconduct and accountability in Scotland. In doing so we address questions 2, 6 and 10 in the Call for Evidence and provide much-needed empirical analysis on a contentious topic. We begin with an outline of the fundamentals of risk-based regulation, followed by our research findings. We conclude with a number of policy recommendations relevant to the challenges facing the Charity Commission and the wider UK charity sector.

Background

2. Concerns have long been raised about the accountability and conduct of charities, particularly the adequacy of current reporting and oversight mechanisms (Acar, Guo & Yang, 2008; Saxton & Guo, 2011). A core objective of the Charity Commission’s Strategic Plan 2015-2018 is to “become a risk-based regulator focussed primarily on enforcement and prevention.” (Charity Commission, 2015, pp. 1). Consequently, the Commission is opening increasing numbers of statutory inquiries into cases of alleged charity misconduct.

3. Among the panoply of concerns, various stakeholders have questioned the amount spent by these organisations on their charitable activities, the provision of private benefit to trustees and senior management, and the manner in which charities raise their funds (Charity Commission, 2016). These misgivings are particularly salient in an era of increasing public scrutiny and accountability of institutions in general (Power, 2009; Rothstein, Huber & Gaskell, 2006). Consequently, charities and those tasked with their oversight are under increasing pressure to demonstrate their legitimacy and sustain and enhance public confidence in the sector.

4. Uncertainty is inherent to most regulatory endeavours. It can stem from the sector subject to regulation, imperfect or incomplete information and shifting public attitudes. As a response to this uncertainty, regulators in many sectors – such as nuclear power, road safety, occupational hazards and civil society – are increasingly adopting what is known as risk-based regulation. It is defined as a particular strategy or set of strategies that regulators use to target their resources at those sites and activities that present threats to their ability to achieve their objectives (Black & Baldwin, 2012). Risk-based
regulation is championed as an “apparently rational, objective, and transparent way of deploying limited regulatory resources.” (Hutter, 2006, pp. 216-217) It offers insulation from claims of subjective or emotional responses to events by regulators, and the potential of a more equitable distribution of regulatory burden.

Our Research Work

5. Drawing upon OSCR’s administrative records for all Scottish charities in the period 2006-2014, we developed models to explain two dimensions of charity misconduct: regulatory inquiries and resulting action. There have been 2,109 regulatory inquiries of 1,566 Scottish charities over the period, with 13 percent of these inquiries leading to regulatory action being taken (e.g. suspension of trustees). Members of the public are most likely to raise a concern and thus trigger an inquiry, while the most common concerns relate to general governance and misappropriation of assets. Our results demonstrate that large charities (Income of £10m +), those that carry out activities themselves, and those that do not have parent organisations are more likely to trigger an inquiry; the age of the organisation is, perhaps surprisingly, not associated with this outcome. With regards to regulatory action, it appears that the largest charities are less likely to be subject to regulatory action, as are those with parent organisations. Despite being most likely to raise a concern with OSCR, members of the public are worse at spotting actual misconduct than other stakeholders (e.g. trustees, auditors).

6. Our results suggest that there are clear patterns in the types of charities subject to complaints about their conduct and, to a lesser extent, in the use of regulatory action by OSCR. There are two implications of this work relevant to the Parliamentary Inquiry. First, most concerns regarding misconduct are ill founded or minor and serious wrongdoing can be difficult to identify: in essence, there is a large degree of “noise” (complaints) obscuring the “signal” (misconduct). Second, the disconnect between the types of charities triggering complaints and those engaging in misconduct presents a significant challenge to regulators in how they promote public confidence and trust in the sector.

7. Our second body of work is focused on accountability concerns. Drawing upon OSCR’s administrative records for all Scottish charities with annual gross income of at least £250,000 in the period 2006-2013, we examined the relevance and effectiveness of OSCR’s financial exceptions monitoring programme. The intention of this programme is to establish standards and identify vulnerabilities (e.g. errors, transgressions and risks) in the financial reporting practices and health of charities. The exceptions monitored represent certain accountability concerns, and in particular reflect OSCR’s initial and continuing focus on fundraising, governance and compliance with regulation. The results of our analysis reveal that a majority of these larger charities (61%) trigger accountability concerns and a minority do so persistently. The most common financial exceptions are related to the possible failure to apply funds for charitable purposes, followed by poor liquidity, low reserves, and threats to viability. Our most surprising finding is that none of the 32 financial exceptions monitored over this period were associated with negative organisational outcomes such as late submission of accounts (non-compliance) triggering statutory inquiries, regulatory action or removal from the Scottish Charity Register.
8. There are two implications of this work relevant to the Parliamentary Inquiry. First, the selection of which concerns to monitor should be driven by two factors: concerns that are strongly associated with organisational demise or dissolution; and those that are most strongly correlated with public trust and confidence. Second, regulators should, at the very least, consider publishing their analyses of these accountability concerns, thereby reassuring the public that they are vigilant and that there is (often) nothing to be concerned about.

Recommendations

9. Recommendation One – Regulators should publish more detailed, accessible information and guidance on misconduct and other concerns in the sector. The Charity Commission and OSCR already engage in this activity to some extent by publishing inquiry reports and statistics but there are a number of areas that should be improved. First, the Commission should enhance its public profile so that it captures greater numbers of complaints: there is evidence that levels of awareness of charity regulators in the UK are not high and thus there is almost certainly missing data on misconduct (Hogg, 2016; OSCR, 2016). Second, better guidance on what constitutes serious wrongdoing should be developed in order for stakeholders to better identify matters worthy of reporting to the Commission. Third, the reports and figures that are currently published provide little or no narrative on the implications of regulatory monitoring of misconduct, and often fail to place this activity in the wider context of public trust and confidence in the sector. The Commission should clearly communicate the compartmentalised nature of misconduct in the sector, thereby helping to insulate low risk charities from being afflicted by the general reputational damage caused by the minority accused of misconduct. Adopting this recommendation can address a longstanding concern in the provision of performance information about charities: the inaccessibility – both logistically and cognitively – of this information for key stakeholders (Britton, 2008; Connolly, Hyndman & McConville, 2013; Keating & Frumkin, 2003; Philips, 2013).

10. Recommendation Two – Regulators should engage with charities on a systematic, regular basis to address issues surrounding misconduct, accountability and public trust. The risks that charities experience may differ – in nature and extent – to those identified by regulators through their monitoring activities. The Commission should engage in knowledge exchange activities with charities in order to address this disconnect. For example, it could develop guidance based on analysis of statutory inquiries that could be used by charities to be proactive and deal with complaints themselves; this could also be done for data relating to accountability concerns. This would allow charities to adapt their governance and reporting practices in response to specific and sector-wide concerns. As Acar et al. (2008, pp. 13) surmise: “accountability as a marker sets the stage for accountability as a modifier.” The Commission could also learn about novel and emerging risks afflicting charities by collecting data in the form of periodic sector surveys, focus groups and from other sources (e.g. media reports, other regulators).

11. Recommendation Three – Regulators should do more to communicate the achievement of public benefit by charities. This involves leveraging or collecting data on the impact of
charities on society. While this is foremost the responsibility of charities themselves, the Commission should provide individual and aggregate-level data on performance that goes beyond the provision of financial information. One such source is the Trustee Annual Report submitted by charities. Adopting this recommendation would enable regulators to counter misconduct and accountability concerns by placing them in a wider context of the impact of charities.

12. **Recommendation Four**—*Regulators should collaborate and share data with researchers to further our understanding of the sector.* Our research has been possible due to the extensive data on organisations, complaints and investigations made available to us by OSCR. Increasing the openness and availability of administrative data on charity regulation would encourage research in this area and directly inform the understanding of risk and accountability in the sector. For example, at a time when OSCR has embarked on a new proactive and preventative approach similar in style and substance to the Commission’s strategic objective to become a risk-based regulator, our research has been of considerable value in two main aspects: supporting the development of regulatory approaches that better address society’s questions about the modern charity and encourage public trust and confidence; and improving the quality and utility of OSCR’s administrative data. There are also opportunities to link administrative data on charities to other data sources, including data held by other regulators: such approaches are well established in this area and social science research more broadly thanks to initiatives such as the Scottish Network for Third Sector Data (http://www.thinkdata.org.uk/) and the Administrative Data Research Network (https://adrn.ac.uk/).

**References**


24 August 2016
Submission to be found under Professor John Mohan
Who is MHA?
MHA is an award-winning charity providing care, accommodation and support services for older people throughout Britain. We are one of the most well-respected care providers in the sector and amongst the largest charities in Britain, providing services to older people for more than 70 years. Our aim is to eliminate isolation and loneliness among older people by connecting older people in communities that care.

MHA delivers a range of high quality services to 17,000 individuals:
- 4,350 older people living in 84 care homes - residential, nursing and specialist dementia care
- 2,500 older people living independently in 72 retirement living communities with flexible support and personalised care, with a further ten sites in development
- 10,000 older people supported through 66 Live at Home services in the community.

Our services are delivered by 7,000 dedicated staff and enhanced by the commitment of 5,500 volunteers.

MHA recognises that loneliness is an increasing challenge that affects many of us as we age and it is manifested physically, emotionally and spiritually. Our ambition is to ensure that every older person can be connected within a community of their choice so they can live an independent and fulfilled later life as they age.

MHA is pleased to submit evidence to the call for evidence on Charity Sustainability and our response focuses on our perspective as a large charity with a long heritage serving 17,000 older people.

Executive summary

- **What makes charities different?** Charities have an important and distinct role as they operate for public benefit in a ‘third’ space between the private sector and the public sector. This key distinction gives us the freedom to pursue our long term vision and goals focussed on public benefit and the difference we can make to our direct beneficiaries, their families and friends and wider society. This enables us to invest every penny of our surplus, including our fundraised income, into maintaining and developing new services for the benefit of more older people.

- **Experience and responsiveness:** Charities like MHA were originally set up to meet needs within the population that were not being met any other way – in our case, the needs of older people. As those needs continue, and are increasing as well as evolving, we bring a breadth and depth of experience in meeting needs effectively and in the ability to develop responses to emerging needs.

- **Our amazing volunteers:** At MHA, like most charities, we champion the importance of our volunteers. They are invaluable and we could not deliver all that we do without them. Demand for volunteers is increasing and we have responded by improving the quality of our ‘offer’ to volunteers and better recognition of all that they do.
Governance - does one size fit all? We also champion the essential role our trustees play. However, the current governance arrangements for charities mean that one size fits all – once you are a trustee, your duties and responsibilities are the same regardless of the size and type of charity it is. There are thousands of small charities that are not comparable in any way in terms of scale, size and impact - is it right to have the same expectations and duties of all trustees, regardless of this? We suggest there needs to a debate about a more pragmatic tailoring of trustee responsibilities to the focus, scale and purpose of their charities for which they are responsible.

Balance of accountability: In large charities like MHA, members of the senior executive will recognise their accountability for how they run the charity on behalf of the trustees. While the Charities Act has strengthened some of the powers of the Charity Commission in relation to trustees and senior officers, does this ensure sufficient accountability for the senior executive team in a large charity?

Resist the temptation for more regulation/ bureaucracy: Large charities are complex organisations, with diverse income streams, working across a range of sectors. At MHA, we already operate in a highly regulated environment – the care we provide is regulated, the housing we provide must meet key standards, the volunteers we recruit must be DBS checked. Government policy for the third sector needs to recognise the bigger picture of the current regulatory environment in which many charities operate, beyond the fundraising activity of charities. We would not wish to see the Government pursue a more heavily regulated approach for charities working across a range of sectors.

1.0 Role and purpose of charities in civic society

1.0.1 MHA’s view is that charities occupy an invaluable ‘third’ space, between the private sector, often operating for profit and dividends and the public sector, which can be constrained by funding and short term election cycles. A key distinction for charities is that we do not have to serve the needs of shareholders in the form of dividends, nor do we have direct political masters in the form of locally elected politicians on relatively short election cycles.

1.0.2 This gives us the freedom to pursue our long term vision and goals focussed on public benefit and the difference we can make to direct and indirect beneficiaries and wider society. This can also give us more freedom to experiment with what works and try different solutions

1.0.3 MHA, like many charities, was set up to meet unmet needs within our population – in our case, the needs of older people. We began to provide services for older people over 70 years ago, filling a gap at that time. Since then, the charitable work that we do has evolved, as older people’s needs have evolved, but we still see a need and purpose for our work as our ageing population increases and as our experiences of ageing change.
1.0.4 We want to do much more for many more older people to help them stay connected in communities that care and to enable them to have the best possible later life. And we want to have a wider impact on society in the way we view and treat ageing and in the way our communities respond to ageing. When we think we have achieved these aims, we will have fulfilled our purpose.

1.0.5 Being guided by the principles of public benefit is essential to the work that we do and the change we want to achieve. Increasingly, we also see that charities like us are plugging the gaps emerging from the withdrawal of the public sector in the provision of services and support for older people, as the public sector grapples with significant reductions in funding.

1.1 Civic action

1.1.1 MHA is a good example of a charity whose purpose is at the centre of social change and social integration, as we have responded to the emerging needs of older people over the last 70 years – so for example, in 1988, we set up our first Live at Home Scheme to support older people living in their own homes with access to community networking and befriending services and in 2008 we introduced our innovative music therapy service for people with moderate to advanced dementia. We also work to ensure the voice of older people is heard in campaigning for policy change and civic action.

1.1.2 We have clear values including respecting every person as being a unique individual, dignity, being open and fair, being the best we can be and nurturing the body, mind and spirit to promote a fulfilled life that pervade all that we do as a charity.

1.2 Volunteering

1.2.1 MHA benefits massively from our volunteers. We have approximately 5,500 volunteers and they are at the heart of much of our work, from helping us to deliver services, such as befriending and supporting older people, running activities and helping us raise funds and increase awareness of the change we want to see for older people. A conservative estimate of the economic value of our volunteers is £2.2m per year.

1.2.2 Our volunteers also tell us that they get immense benefit and satisfaction from giving their time to help the work that we do, so that reciprocal relationship is clearly very important and very valuable. Many of our volunteers are older people themselves, so having an active volunteering role with us also helps to achieve our wider purpose of creating communities that care and helping people stay connected in their communities.

1.2.3 At MHA, we have always worked hard to really recognise our volunteers and the immense contribution they make, for example each year we host a celebration event in most of our services to celebrate their help, support and achievements. Volunteers are increasingly in demand as many charities are competing for their time
and commitment, so charities now have to do more to attract and maintain their volunteers. This in turn has driven up the quality of charities’ offer to volunteers, including better volunteer management, reward and recognition. This can be seen in increasingly professional programmes of recruitment, training, support and reward to make sure that volunteers really do feel valued and can enjoy an improved status.

Therefore, like many other charities, we at MHA are reliant on our volunteers and could not deliver the breadth and depth of services we offer without them. However, engaging volunteers is not straightforward, particularly for charities working with vulnerable people. For example, all our volunteers have a DBS check and all activities must be risk assessed for health and safety purposes. Government policy that focuses on volunteers should be mindful of this and avoid additional layers of bureaucracy that might discourage volunteers.

**1.3 Challenges faced by charities**

1.3.1 At MHA, our ambition is to ensure that every older person can be connected within a community of their choice so they can live an independent and fulfilled later life as they age.

1.3.2 It is important to us that we meet the challenge of remaining responsive to the evolving needs of older people and our ageing society. Being flexible and agile in our work can be a challenge. Most charities are competing to have their voice and cause heard, so it can be a crowded marketplace, in terms of building fundraising, recruiting volunteers, increasing awareness of the cause and achieving policy and wider public influence.

1.3.3 Making sure we listen to older people and work with them to evolve our services; keeping up to date with digital and technology developments; working collaboratively with other partners, who share similar goals, to build our voice and influence; cherish our supporters and volunteers; and safeguard our reputation and uphold our values through delivering recognised quality services.

**2.0 Main pressures faced by charities currently**

2.0.1 In MHA’s experience, we benefit from a supportive charitable culture in terms of the British public’s propensity to donate their time, money and voice. However, the revelations during the last year about some of the practices being used by big UK charities has, quite reasonably undermined trust in the whole sector. Here at MHA, we have not used and would never use those aggressive fundraising practices and we have a real opportunity to show ourselves as distinctive and separate from that behaviour. Excellent stewardship, openness and transparency are key to building and maintaining public trust and the whole sector has the opportunity to do this well going forward.

**3.0 Innovation**
3.0.1 At MHA, a key challenge for us is making sure we are able to innovate in the way we offer our services to older people and in the way we develop our approach to recruiting supporters to keep up with the ever-advancing digital landscape.

3.0.2 More promotion innovation could be done by sharing of best practice between charities and a wider use of partnerships and collaborations, for example academic partnerships and accelerator type pilots and projects. Big funding streams, like the Big Lottery Fund, could be encouraged to do more to fund innovation and help continue development in the sector.

3.0.3 However, time and competition may hinder charities capacity to innovate. Charities which deliver frontline services in particular, are focussed on delivering great quality everyday, so funding time and resource to test new ideas can be a challenge.

4.0 What skills are required to lead and manage a charity?

4.0.1 The skills needed to lead and manage a charity effectively do, in reality, relate to the size of the charity, the scale of its work, both financially and in terms of frontline delivery of services, and the focus of its work in terms of intended beneficiaries.

4.0.2 At MHA, as we are a large, well established charity, delivering frontline services to 17,000 older people and an employer of over 7,000 staff, we understand the importance of having experienced, capable leadership – both in our executive leadership team and in our board of trustees.

4.0.3 Our recruitment process for trustees is driven by a clear understanding of the different capabilities we need on our board to provide excellent governance. Future ‘gaps’ in capability are planned for by a Governance Committee of the Board, which is not chaired by the chair of the Board.

4.0.4 We seek the widest possible pool of candidates for trustee roles and use a competitive, competency-based interview process from, which we select the right people to join the Board, subject to suitable references. The Chair of the Board and Chief Executive are on the recruitment panel along with other Trustees as appropriate.

4.0.5 Within the sector, there have been suggestions that, if charities cannot recruit the right people as trustees on a voluntary basis, then charities should have the option to pay trustees. While this may be one practical solution, given the current public scepticism about how charities are operating, it does not feel an opportune time to suggest this. If this were to be followed, perhaps sector-wide guidance may help setting maximum fees based on scale and complexity of the organisation to avoid damaging the reputation of the sector.

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4.0.6 We have a clear job description for our trustee, which outlines what the role requires in terms of personal qualities, skills and expertise. We have a handbook for our trustees, a buddy system to link them up with a member of the executive leadership team and a programme of training, visits and workshops to keep them upskilled. We have a committee structure to make sure that we have the right mix of supervisory competences across the Board as a whole. At MHA, we recognise that smaller charities may not be able to make this level of investment in the professional recruitment, training and support of Board members.

5.0 Trustees role in performance and effectiveness

5.0.1 As trustees are ultimately accountable for their charities, they clearly have an important role in understanding and overseeing the performance and effectiveness of their charities.

5.0.2 At MHA, our trustees bring a wealth of experience, insight and time to provide that non-executive role of being a critical friend to the executive team who are running the organisation. We have a good open culture of recommendation, discussion and healthy challenge, but there is a clear hierarchy in that ultimately decisions are made by the board and the key senior executive officers do not have a vote in those decisions.

5.0.3 The quality of oversight, decision making and good governance is intrinsically linked to having the right skills and experience within our trustees and in the effectiveness of the paid executive team. The executive team also need to ensure that trustees have all the information that they need to make important decisions about how MHA operates and fulfil their duties as trustees. It is also dependent on effective ongoing training, briefing and support.

5.1 Current governance arrangements

5.1.1 The current arrangements for charities mean that one size fits all – once you are a trustee, your duties and responsibilities are the same regardless of the size and type of charity it is. MHA is a large charity, with 17,000 direct beneficiaries, 7,000 staff and 6,000 volunteers. There are thousands of small charities that are not comparable in any way in terms of scale, size and impact - is it right to have the same expectations and duties of all trustees, regardless of this?

5.1.2 Is one governance system the best way to ensure good governance? An alternative approach could be to consider difference types of governance to suit different types and size of charities, reflecting the key duties, beneficiaries and responsibilities of the charity in question.

5.1.3 There is also the question as to whether the current balance of responsibility between the senior paid executive team and the non-executive, voluntary trustees is right? While the Charities Act (2016) has strengthened the powers of the Charity Commission to remove trustees and senior officers following an inquiry into
misconduct/mismanagement and extending the disqualification criteria from trustees to senior officers, does this ensure sufficient accountability for the senior executive team in a charity?

5.1.4 In reality, in large charities like MHA, members of the senior executive will recognise their accountability for how they run the charity on behalf of the trustees. In practice, the Board of Trustees and Executive Leadership team are more akin to Non-executive and Executive Directors. We suggest that there is a case, for larger charities, to embrace the practice of companies and the good work done over many years on the Combined Code and move to a model whereby the Charity Board is made up of a mix of Executive and Non-executive roles. Even with current governance arrangements, it is very likely that as a minimum the Chief Executive and Finance Director could be seen as Shadow Directors, even if they are not members of the Board. Does the Charity Commission need to consider how best to ensure sufficient accountability for the senior executive team in a large charity?

6.0 Accountability

6.0.1 The public can access a large amount of information on charities, if they know where to look, for example the Charity Commission’s register. However, much of this information may be difficult for many members of the public to understand.

6.0.2 It is recognised good practice for charities to provide clear communication and transparency on their impact and fundraising practice. As many large charities do, here at MHA, we publish an annual ‘impact statement’ to provide information to our beneficiaries, donors and the public. This provides clear information about the outcomes we have achieved, an outline of how much money we have raised and where we have spent it. We also publish our report and accounts in a timely and transparent way.

6.0.3 This practice is widespread in large charities, but may be difficult for smaller charities to undertake, as there are no set standards for such publications. It also requires experienced and skilled trustees and executive team to recognise the need for excellent stewardship for donors and clarity of communication to beneficiaries and donors. A guideline for a model Impact Statement may be worthy of consideration.

6.0.4 Charities do need to help the public understand the basics of how charities work in terms of structure, with voluntary trustees and paid staff. We all need to ensure that we focus on building and maintaining public trust after the recent revelations of poor practice and aggressive fundraising. The new Fundraising Regulator and the Fundraising Preference Service will help, but each charity has its part to play in ensuring they are properly accountable to their donors, beneficiaries and the public.

7.0 Challenges to financial sustainability

7.0.1 There are lots of charities, many aiming to achieve the same goals and outcomes. There is unquestionably inefficiency and duplication in the sector, especially
amongst the smaller charities. Would it be useful for the Charity Commission to have a greater advising role for potential, new and smaller charities to encourage joined up working and possible mergers? A charity ‘lite’ model may also be useful to reduce bureaucracy, with differing tax bands for different size/types of charity.

7.0.2 At MHA we provide a range of services and consequently have a diverse source of income. We invest every penny of our surplus, including our fundraised income, into maintaining and developing new services for the benefit of more older people. It is vital that charities maintain a diverse income stream and are not reliant on one source of funds. Therefore it is important that any changes in the fundraising regulation environment do not impinge or restrict charities to ability to generate income from other sources and indeed, that a broad spectrum of income sources is encouraged.

8.0 Social investment and social impact bonds

8.0.1 Social impact bonds do offer a potential funding mechanism for the sector to help achieve more impact for more people and to try new ideas and innovate. However, they seem to be fundamentally about helping to reform public service delivery outcomes, so the role of local government is critical to success here, be that local health and social care commissioners or other public service organisations. Social impact bonds do offer opportunities, but they also bring considerable risk. For many charities, having the time, skills and capacity to explore the potential of these bonds, is an issue.

9.0 Role of Government

9.0.1 The charitable sector has immense expertise and experience in providing valuable services to a whole range of different people, we welcome Government recognition of the sector’s expertise and that it is often better placed than traditional public services to meet need.

9.0.2 Over the last 15 years or so, the Government has increasingly sought to use the third sector to deliver more services to vulnerable groups. This can be seen through the creation of the Office of the Third Sector/Civil Society, the use of the third sector by local authorities and central Government through directly outsourcing services to charities and the funding derived through the National Lottery. This has resulted in growth across the sector. However, Government also needs to be realistic about the extent to which the sector can continue to deliver mainstream services on behalf of Government, as well as fill gaps in services for vulnerable people given the increasing funding pressure on the third sector.

9.0.3 The Government does need to recognise that charities like MHA provide a range of frontline services for older people, including care homes and retirement living (housing with care), which means we have considerable experience in operating in a highly regulated and frequently inspected environment (e.g. the CQC). While there has been public pressure on the Government to consider the ways in which it
regulates charities from a fundraising perspective, it is important that the
Government sees the bigger picture of the current regulatory environment in which
many charities operate. We would not wish to see the Government pursue a more
heavily regulated approach which creates further bureaucracy or that disadvantages
charities who work across a range of sectors.

9.0.4 The charity sector must be able to remain independent of and free to comment on
Government without fear. Charities are there to serve their beneficiaries, which may
include complaining or raising an issue that may be contrary to Government policy
direction. Government should welcome challenge and debate and should be open
to learning from the sector.

9.0.5 When our work is making a tangible, positive difference to our beneficiaries and
supporters, that can be evidenced, the sector needs an open door to influence
Government policy thinking longer term.

9.1 Local Government

9.1.1 Local Government is as reliant as national Government, on charities to provide
services to people in need. There are local partnerships that do exist but Local
Government to develop long term strategies and funding commitments due to a
reduced local authority funding by central Government and short term funding
cycles based on annual budgets. Working with Local Government for, large and
small, national and local charities is challenging.

9.2 Role of the Charity Commission

9.2.1 Being a charity brings with it significant support from the tax payer via the tax
benefits charities receive. It is important that the Charity Commission is in place and
able to fulfil its role to ensure that charities are operating legally, efficiently and
delivering public benefit. It is not clear if the Charity Commission has sufficient
resource to do this effectively, given the huge number of charities that exist in the
UK.

9.3 Devolution

9.3.1 At MHA, we currently work in a huge number of Local Authority and Clinical
Commissioning Group areas. This makes relationship building quite challenging, so
devolution may offer a simplification of these relationships which would be welcome
and would make it easier to serve local needs. It may also bring opportunities for
new innovative ways of working locally and we would hope a reduction in
bureaucracy, duplication and red tape. However if devolution comes with further
funding reductions as efficiencies are sought, this may encourage local areas to ask
the third sector to do even more for less. There is already a postcode lottery in terms
of investment in services for older people.

5 September 2016
Background

I am Chair of Home-Start Slough. We are part of a federated group of some 260 Home-Start branches throughout the UK, each individual charities. Our core service provides home-visiting to help disadvantaged families with at least one child under five. The service is delivered by volunteers who are supervised by branch employees.

I have been involved in Home-Start Slough for 10 years, firstly as Fundraising Trustee where I raised over £2m in grants, then for the past 2 years as Chair. Last year we faced a financial crisis due to funding issues. We are now more financially stable, though living “hand to mouth” as we try to build financial sustainability.

In retrospect our financial crisis taught us much about how we need to operate to be a successful charity in the current financial climate. Indeed, I learned so much personally that I now provide advice and support to other Home-Start branches that get into financial difficulty. I am determined to drive and promote new ways of working at Home-Start Slough that will transition us to a completely different way of working in future.

My professional experience is not in the charity sector. I have a business background, currently working as a Senior Business Leader in IT. In my previous position I had P&L responsibility for about $70m of business per annum.

I am delighted that "charity sector sustainability" is being addressed. In my opinion it is a major issue and there is much work to do if we are to alleviate the challenges that exist.

My comments are my personal insights and thoughts based on my experience of the sector. I passionately believe that far reaching changes need to be made to improve charity sustainability. This needs to be a combined effort between the voluntary, public and private sectors. It is a holistic problem and needs to be “owned” by all of us.

The purpose of charities

2. What is the role and purpose of charities in civic society in England and Wales?

The role and purpose of charities is to promote and deliver work in the community to public benefit. This could be supplementing a statutory service. In Home-Start’s case our work is prophylactic, providing early intervention to known troubled families, the aim of which is to defuse issues that might otherwise lead to increased healthcare, social care, legal aid and policing costs. Over recent years it appears that our service has been treated as a “luxury”. Statutory funding only seems to be available to deal with issues after the event instead of trying to prevent the issues happening in the first place. It is very short-sighted.

Charities raise funds through their own activities and/or by applying for grants. Grant funding is typically "restricted", meaning that it cannot be used to improve general service delivery through investment in process improvement, training, IT, infrastructure, and the
like. General service improvement needs to be paid for through a charity’s own fundraising efforts, donations or focussed grants.

Most charities rely on volunteers. Well trained, well supported and well supervised volunteers enable us to provide efficient and cost effective services. If utilised successfully, as David Cameron acknowledged when promoting the Big Society, this is one way in which we can continue to deliver quality public services without breaking the public purse. The volunteers benefit immensely too, growing and developing their skills, gaining confidence and creating new career opportunities for themselves.

The potential of volunteering to improve public finances and charity sustainability is enormous. The question is, "How can we increase the quantity and quality of the volunteer workforce?" Here are some ideas for consideration:

- Volunteering should become the “norm” for everyone. Most existing volunteers are retired or not working. A fundamental change is needed to encourage volunteering from the Public and Private workforces too. A public awareness campaign is needed to change the perception of volunteering, to advertise its material career progression advantages and to portray not volunteering as a social stigma.

- Organisations could provide incentives to encourage staff to volunteer. They might give extra holiday, extra training, and flexible hours, working from home days or lieu days perhaps.

- Organisations could reward staff that volunteer by incorporating feedback from relevant Charities into overall objectives, appraisals and promotion criteria in the workplace. This could be piloted in the Public Sector initially.

- Local Authorities and CCGs could incentivise volunteering with extra medical benefits, free public transport, free access to public facilities, free access to public events, etc.

- Local Authorities should be targeted to use volunteers to perform healthcare and social care activities. We have recently been awarded some “training funding” to enable our volunteers to gain qualifications and provide an enhanced service to our families. This benefits the Local Authority as we are performing activities previously provided by them but far more cost effectively. It also enables us to get long-term commitment from our volunteers who are attending the training and now play a key part in our service development. Local Authorities and Clinical Commissioning Groups should be targeted to identify those areas where volunteers could provide service and commission relevant services from Charities. % targets should be assigned and reported on.

**Pressures and opportunities**
2. **What are the main pressures faced by charities currently, and what impact have these had?**

Historically Home-Start’s role was to supplement statutory services and provide additional support with focus around prevention and early intervention. We work with the family to prevent escalation of their issues and the ensuing increased social care costs. A report by the Children’s Society (http://www.childrenssociety.org.uk/news-and-blogs/our-blog/early-intervention-funding-faces-70-cut) projects that cuts to early intervention funding between 2010 and 2020 are likely to be about 70%.

As early intervention and preventative services are not deemed essential, this has impacted the majority of Home-Start branches in the UK.

To alleviate this issue, Home-Start branches, including Slough, have become much more driven by funding availability, moulding and adapting our services to meet the requirements of our benefactors. This is the only way we can survive. It also presents opportunities to be creative and innovative in order to meet the needs of the local communities we work in. And it enables greater partnership working. However, it means that we have to operate in a different way and we need a different type of leadership.

Innovative thinking, being risk aware not risk averse, data analysis, management information, measurement systems and the ability to measure and report on many different types of outcomes need to be integrated into the charity ways of working. This creates challenges. We have little investment available for scheme development, new ways of working, new IT systems etc, as we have to focus spending on our beneficiaries.

**Innovation**

3. **How do charities seek to innovate, particularly in the digital arena?**

Innovation needs to be at the heart of every Charity to survive. Small charities can no longer survive without service innovation. They need to develop and expand their services in an innovative way. Creative thinking, being adaptable and developing services to stand out in an increasingly competitive market place has become essential. Barriers relate to the available skills and resources, plus the inherent risk aversion, within the charity sector.

Digital is a challenge. With no investment in technology, the digital world is not at the heart of a charity. Digital innovation is in its infancy. An injection of skills and investment would be needed to enable this to happen.

**Governance and leadership**

4. **What skills are required to lead and manage a charity?**

To survive, business skills are essential to the success of a charity. Many charities are structured as limited companies with the Trustees acting as Directors. It is essential that Trustees operate as real Directors: Marketing, Sales (fundraising), HR, Operational, Finance etc. “Coffee Morning Trustees”, no matter how gold hearted, will not provide the
sustainability the charity sector needs. With a UK average Trustee age of 59 and so few, at least in my experience, from the Corporate world, this is a critical issue that needs to be addressed. No longer can the Trustee role be left entirely to the retired. Charities need Trustees with vision and strategic thinking to act as transformational agents of change.

There are funds available to enable charities to undertake capacity building – such as developing a specific area of work, reviewing governance, etc – but this is not the same as having the means to create highly skilled leaders who can adapt, collaborate and thrive in an increasingly competitive and complex environment.

For the charity sector to survive we need to build the capacity to lead from within but to do this we need a big injection of skills and experience from outside. This, in my opinion, would enable the transformation of the voluntary sector over time.

Some revolutionary ideas are needed to address the charity sector skills shortage. Here are some possibilities:

- Mandate Corporates to provide Trustee skills. Perhaps providing percentage targets and requesting reporting via their Corporate Responsibility reporting.

- Mandate FTSE250 CEOs and Senior Leadership teams to be Trustees of Charities.

- Require a period of time, perhaps two years, as a Trustee or charity volunteer in order to gain a professional qualification e.g. to become an Accountant, to obtain a MBA, etc. This would also create a younger pool of Trustees and a more sustainable pool of skills for the charity sector. For instance, it would create a pool of accountants who understand charity finances and who are familiar with charity issues.

5. What role should trustees play in the performance and effectiveness of a charity?

Trustees have a key role to play in the performance and effectiveness of a charity. Their strategy, governance and leadership will make a key contribution to the sustainability of the sector.

Investment is needed for Trustees to be equipped and enabled to fulfil their responsibilities. For example, corporate and public sector "Learning and Development" departments could run specific courses on the role of the Trustee. Courses would be part of a company’s Learning and Development agenda. Courses could be attended by external Trustees who are not employed by the company as well as the employees of the company.

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

No comment
Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

One major challenge with regards to financial sustainability is over-reliance on particular funding streams. In the past nearly 45% of Home-Start funding came from statutory sources. Public spending cuts have reduced this by more than half. Even though some of the shortfall has been replaced by Big Lottery funding, we have still lost 12% of Home-Start branches and many of the rest are almost totally dependent on the Big Lottery.

Major benefactors, especially the Big Lottery, now control a lot of the voluntary sector funding. Does their role need to be reviewed with regards to charity sustainability? These funders are able to change the shape of the sector via their funding strategy. Does this role have the right level of governance? Should they be able to award charities more than 30% of their overall income, thereby leaving the charity vulnerable when the funding ceases. It is great to receive a big funding award from a major benefactor but what happens when it ends? No other source can match their awards, so charities are forced to re-structure or close.

I appreciate that charity benefactors have their own remit and governance. But, as we are so reliant on their funding for sustainability, I think we should question whether huge grants should be awarded and whether they are available in the rights areas. Perhaps a collaborative working party could be set up amongst the major charity benefactors to define a common charter and ways of working.

With regards to efficient use of resources, too much money is spent on applying for funding across the sector. The major charity benefactors receive tens of thousands of bids, of which less than 10% are actually awarded. It appears to be a very inefficient and ineffective process that is embedded in the charity sector. Funding has become so competitive that charities are now spending money to get professional bid writers to complete their applications. Surely this is not right. It is a form of escalation that robs beneficiaries of help. As difficult as it may be, I think that this way of obtaining funds need to be reviewed and changed. The historic ways of working and approach are just not applicable in today’s climate.

In addition, the role of the private sector with regards to charity sustainability needs to be reviewed. Perhaps putting in place a system where 10% of EBITDA profits are gifted to the charity sector. This could take the form of cash or skills. The present situation is so critical that drastic action does need to be taken and the problem needs to be “owned” by everyone.

The ability of charities to raise their own income is becoming key to survival. The challenge is the ability of a small charity to do this with limited resources and limited funding. Some Home-Start branches have increased their economies of scale by merging. In some cases this has created large organisations with a cost base between £750,000 and £1m per
Lesley Michaelis — Written evidence (CHA0061)

annum. The loss of a main funding source presents even more of the risk to their survival, although we are all in jeopardy. We need our own income stream. The challenge is the ability to develop this with limited resources and limited funding. There have been some funds made available toward sustainability e.g. The Big Lottery had a fund, but based on the critical need, a review is needed to make more funds available.

Social investment

8. What is the potential of social investment and social impact bonds?

These are an excellent idea and with I think they have the potential to fund early intervention and preventative work. Presently I see the following as barriers to fulfilling their potential:

- Most small charities lack suitable measurement systems to value the benefits of their service. Formal finance deals need a rigorous data collection system. The provision of effective data collection and measurement systems to report on long term benefits can be challenging particularly when dealing with issues such as emotional health, and where teams of volunteers are providing the service. Investment needs to be made to enable easy, user friendly reporting against outcome criteria.

- Most small charities lack the resources and skills to create the suitable measurement systems. Likewise, they lack the resource to engage with potential delivery partners. 70% of charities in the UK have income under £100k. These organisations have no capacity to pioneer new ways of working / funding for investment.

- Some potential charity finance vehicles only pay on successful results. In order for a small charity to avail themselves of such funding they need the ability to fund the cash flow, and to afford the loss if the project fails. This is at mutually exclusive with normal funding bids which preclude having substantial cash reserves. A mechanism to enable small charities to benefit from social investment and social impact bonds need to be considered. This goes hand in hand with the Trustee role, and overall business skill injection into the charity sector.

Providing some funding and support to the smaller charities would enable these challenges to be overcome and could provide a platform for a sustainable funding source for the future.

At Home-Start Slough, we are delivering a project supporting disadvantaged families to address specific health inequalities in Slough, such as obesity, dental health and immunisation. We have already started to see some positive outcomes. This would be an ideal project for social investment. Our challenge lies in our ability to engage and develop the investment case as well as being able to build our cash reserves; not our ability to deliver results.
The role of the Government

9. What should the role of Government be with the sector?

The Government needs to step in to enable fundamental changes to be made to the sector. A Transformation programme needs to be created that is underpinned by a strategy to ensure sustainability for the sector. The programme should include voluntary, public and private sector contribution.

A public awareness and advertising campaign needs to be created. I am sure that people who are not involved in the charity sector are not aware of the needs for transformation. This advertising and public awareness campaign needs to be led by the Government. Volunteering needs to become part of everyone’s life.

The Charity Commission needs to take a lead in helping the sector to consolidate. Some 66,200 charities (40% of the sector) have an annual income of less than £10,000; 56,800 (34%) have an income between £10,000 and £100,000. This is inefficient and makes ineffective use of volunteers' time and Trustees' passion. There is a desperate need for consolidation. The Charity Commission needs to police new charity applications. If a prospective new charity is being created doing the same as another charity in the area, the Charity Commission needs to enforce consolidation. Governance and methods for consolidation need to be created by the Charity Commission that all charities need to adhere to.

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

No comment

2 September 2016
Missing People — Written evidence (CHA0094)

1. About Missing People

1.1 Missing People is a UK charity, which offers a lifeline to children and adults reported missing to the police and other agencies. We listen in confidence, and support missing people to stay safe, explore their options and, where possible, to reconnect. For those left behind we provide specialised support to ease the heartache and confusion, and help search for their missing loved ones. We provide our services through partnership working, including with the police and social services, as well as other charities and professionals, and undertake research and policy work.

1.2 We are funded by a diverse range of sources including grants, individual donors, government funding and the players of the People’s Postcode Lottery.

Response to the call for evidence

2. Answer to Question 2 - What are the main pressures faced by charities currently, and what impact have they had.

2.1 Given the current Government’s focus on austerity, we are aware that funding for various services has been reduced. For example, we are concerned about the lack of funding available to ensure that all children are protected. Department for Education guidance on children missing from home or care states that local authorities must offer an Independent Return Interview for every missing incident. Moreover, although there is evidence to demonstrate that follow up support after an IRI leads to positive outcomes, the guidance does not currently require this to take place and it is therefore difficult to fund. Therefore, we are concerned that wider local authority budget cuts could make this offer of return interviews and good practice of delivering follow up support increasingly difficult to deliver for missing children.

3. Answer to Question 7 – What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

3.1 We are aware of reports from the Lotteries Council and the Institute of Fundraising that show that one way that Parliament and the government could increase funds to charities is to deregulate the charity lottery sector, for example by increasing the amount that each charity lottery can raise in a year. Increasing these limits would mean more money was available for charities like ours – particularly important at a time when government and other statutory funding for charities is reducing.

329 Department for Education, Statutory guidance on children who run away or go missing from home or care, 2014
330 Railway Children, The Value of return home interviews and follow up support when young people go missing, 2015
3.2 Missing People's experience is that funding from the players of the People's Postcode Lottery complements funding from other sources including the Big Lottery Fund. Indeed Missing People currently receives funding from both the Big Lottery and the People's Postcode Lottery. The Big Lottery Fund funds specific projects including family support in England and after missing support in Wales. The People's Postcode Lottery funding is one of the largest sources of sustainable and unrestricted funding for Missing People. Their funding enables us to be ambitious, think long-term and help to achieve our mission- to be a lifeline when someone disappears.

3.3 National charities like Missing People face an additional challenge to financial sustainability. National government funding has significantly reduced in recent years. This is partly due to budget cuts at departments such as the Home Office, and partly because more funding is distributed at a local rather than a national level, for example through Police and Crime Commissioners. This drive towards local funding disadvantages national charities. As a relatively small charity, we do not have the resources to seek funding from 42 Police and Crime Commissioners. Furthermore, we know that the quality of our helpline service, our sustainability as a 24/7 safeguarding and support service and our cost efficiency depend on having a single national service rather than many local services each funded locally. However, government funding no longer provides national funding opportunities that we can apply for.

- How can charities effectively deliver services and be assured that their work achieves successful outcomes?

3.4 Missing People has a clear mission statement, which outlines and defines the difference we want our charity to make, a clear strategic plan from which team and individual objectives are developed and a clear set of values, which underpin our work and are embedded in the work of the charity. This ensures that all stakeholders in the charity are clear about the impact we are trying to have and how our work contributes to achieving this. In addition, we have developed theories of change for all key areas of our work, which describe the link between what we do and the outcomes for people who use the charities services. We have developed ways of measuring our outcomes to assess the impact of the services we provide. Missing People’s impact measurement practice is a dynamic process and reviewed each year with the charity’s Directors using Inspiring Impact’s Measuring Up! tool.

4. Answer to Question 9 – What should the role of the Government be with the sector?

4.1 The Government should work with charities to develop and deliver key areas of work in partnership. This should be recognised in the development of government strategies and plans.

4.2 One of charities’ key roles is to advocate on behalf of their beneficiaries to government – for changes in policy, legislation or practice when these groups are
disadvantaged. The government must enable charities to fulfil this important role. However, proposals such as the anti-advocacy clause could prevent charities undertaking vital campaigning work.

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Trends in voluntary action by individuals

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Introduction

Charities play a significant role in offering opportunities to volunteer and successive governments have prioritised raising levels of volunteering or, in current usage, social action. Drawing on research undertaken by TSRC and others\(^{331}\), this paper elaborates on some points made in oral evidence regarding a broader range of questions which might be considered beyond a focus on the level of engagement of the populace.

Key points:

1. Rates of engagement in voluntary action are broadly stable – which while disappointing for some may be reassuring for others given the economic circumstances that have been experienced in recent years.

2. However questions can be asked about whether continued stability can be presumed, and about the distributional effects of greater reliance on voluntary action.

3. Some evidence suggests cohort declines in both associational membership and in charitable giving. Thus it cannot be presumed that rising generations will be engaged to the same extent as their predecessors.

4. The extent of engagement varies greatly between individuals. A small subset of the population, which TSRC terms the “civic core”, provides the great bulk of effort; these groups are socially-stratified and tend to be concentrated in the wealthiest neighbourhoods.

5. Substantial geographical variations exist in volunteering rates. These are largely explicable in terms of compositional effects – that is, the mix of people living in a particular neighbourhood. This poses challenges of supply of volunteers, and of matching volunteers with groups, and causes, in areas of greater need.

6. Economic changes have had demonstrable effects on voluntary engagement, evident in significant reductions not just in the proportion of people engaged, but also the hours which they commit; and long-term impacts of job loss are evident in the subsequent participation careers of individuals many years later.

7. The assumption that the retirement of the baby boom generation may provide a boost to volunteer supply needs testing. Survey evidence suggests that while elderly age groups account for an important share of volunteer effort, there tends to be

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\(^{331}\) This paper draws on extensive research in TSRC, most recently work conducted as part of a project on the ‘Impact of the Third Sector in Europe’ which received funding from the European Union’s Seventh Framework Programme for research, technological development and demonstration under grant agreement no 613034. See www.thirdsectorimpact.eu for more details.
much more variability in the amount of volunteer time contributed by them. Controlling for socioeconomic differences between elderly individuals, there is also evidence of much greater variability in the likelihood of engagement.

8. For all these reasons, maintaining levels of volunteering will not happen by accident; it will require a positive appeal and a degree of support.

Rates of engagement

The International Labour Organisation (2011) has referred to voluntary action as an “essential renewable resource” for social development. The evidence suggests that volunteering rates are stable; despite variations between surveys in the questions used to capture participation in volunteering and social action over the past three decades (Staetsky and Mohan, 2011) it can be argued that there has been little change since the first reliable national studies during the early 1980s. The period for which we have the most reliable and consistent data is 2001 onwards, through instruments such as the Citizenship Survey. This also includes a measure of informal volunteering as well as questions about it associational membership and charitable giving. As such, it provides a reliable basis for exploring trends.

The proportion of the adult population giving unpaid help to voluntary organisations (often referred to as “formal” volunteering) in England and Wales at least monthly has been between 25–29%, while between 40–45% did so at least once a year. For informal volunteering (directly assisting people in the community, other than giving unpaid care to relatives), the proportions engaged are between 30 and 35% at least monthly, and 55 to 70% at least once a year. Combined, between 65–75% of the population volunteer in some capacity at least once a year. There have been fluctuations: dips in informal volunteering were noted for years affected by recession and there was also a suggestion of an “Olympic boost” to volunteering rates post-2012, but this has subsided, and rates are now back within the range reported over most of the past 15 years.332

This evidence has shown the underlying stability of volunteering rates; it may not be easy to shift them in an upward direction, but it is also unlikely that they are going to drop very substantially. But there are other items of evidence which suggest a less positive picture.

Cohort variations: can we detect differences in participation between groups born into different birth cohorts?

This was a central theme of the work of Robert Putnam (1995; 2000) on social capital. He found that associational membership and various other indicators of social capital in the USA had fallen substantially since 1970 and concluded that the contributions of the “long civic generation” (those who had come to adulthood before or during World War II, essentially) were not being replicated by subsequent birth cohorts. McCulloch (2014) investigates this for the UK through a study of patterns of change in the membership of voluntary associations – note, not volunteering, but the two are closely related – for four different birth cohorts (defined in terms of dates of birth: 1935 – 1944, 1945 – 1954, 1955 – 1964 and 1965 – 1974) using data from the British Household Panel Study (BHPS) from between 1991 and 2007. The great advantage of this survey is that it observes the same

individuals repeatedly so one can compare, say, the responses of men aged 50 who were born in 1958 and observed in 2008 with the responses of men aged 50, born in 1948, and observed in 1998. Hence the behaviour of people from different cohorts can be compared when they are the same age.

McCulloch shows that when we compare people across birth cohorts measured at the same age in the survey, there is a drop in the mean number of types of organisations of which they are members. There is a strong cohort effect on the probability of belonging to an organisation. The predicted proportion of respondents in the 1965–74 cohort who belonged to at least one organisation is approximately ten per cent lower than that in the 1955–64 cohort observed at the same age. The corresponding gap between the 1955–64 and 1945–54 cohorts is of a similar order of magnitude. The results therefore provide clear indications of a decline in the probability of organisational membership across cohorts.

The mean number of types of organisation of which individuals are members drops by nearly one-third if comparisons are drawn between men born 1945–54 with men born 1965–74. These findings suggest a significant decline in some aspects of associational life. Importantly, cohort variations persist once controls are introduced for social class, education or household type. Furthermore, the relative differences between classes in the probability of belonging to an association are greater for the most recent birth cohorts (those born 1965–74), suggesting widening socioeconomic differentials in participation. McCulloch concludes that differences in levels of membership between cohorts can be interpreted as reflecting the influence of changes in the macrosocial and economic conditions experienced by different birth cohorts. Those from earlier cohorts (1935–44, 1945–54) benefited from a more comprehensive welfare state and from a period of economic growth and very low unemployment. In contrast the subsequent cohorts grew up in adverse economic circumstances, which are strongly associated with reduced levels of engagement.

Sarah Smith and co-authors (2012) make similar points about engagement in charitable giving, using the Living Costs and Food Survey, covering over 200 000 respondents (7000 a year) from 1978 – 2008. As with other studies of participation there is an age-related inverted-U distribution, with the proportion of the population who donate rising to a peak in the early 50s before declining again. Within this overall pattern there was a rise in the likelihood of individuals donating over the first three cohorts in the survey, but thereafter, from the cohort born 1940–44, participation rates fell. The likelihood of donation for someone born in the early 1930s was around ten percentage points higher than their equivalent born in the early 1960s and observed at the same age (e.g. someone born 1934, aged 44 in 1978, compared to someone born 1964 and observed aged 44 in 2008). However this analysis pointed to some cause for optimism in that those born in the 1980s were slightly more likely to be donating than their counterparts born in the 1970s, when observed at the same age.

These generational effects suggest that despite rising prosperity, it cannot be presumed that individuals will continue in the future to volunteer, join associations, or donate money, to the same extent as their predecessors.

*Levels of engagement: the civic core*
A discussion of rates of engagement with a focus on headline percentages can overlook the differences in the contributions made by individuals and the mix of pro-social behaviours which they carry out. This is clear when we look at combinations of participation in volunteering, membership of associations, and charitable giving. Full details are given in Mohan and Bulloch (2012).

Firstly we find that very few people are not engaged – if by that we mean that they do not report any of the above three behaviours. There is only around 15% of the population of England and Wales who do not participate at all in any of these.

Secondly, at the other end of the participation spectrum, there are subsets of the population who are already very highly engaged indeed. We define membership in the civic core on one of these dimensions as being someone whose participation places them within a group the collectively accounts for two-thirds of the total. For example we find that:

- some 7% of the population, each volunteering for at least 14 hours per week, account for two-thirds of the total amount of volunteering;

- for individual elements of participation just over one third of the population provide, respectively, nearly 90% of volunteer hours, four-fifths of the amount given to charity, and 77% of participation in various civic associations.

- Slightly more than 1% of the population account for 11% of hours volunteered, 11% of money given to charity, and 4% of associational memberships.

- Across the three dimensions of participation, 9% of the population alone accounts for half of total volunteer hours, 40% of charitable giving, and one quarter of civic participation.

Note that one limitation of the survey is that it will fail to capture major donors so the figures in relation to charitable giving need to bear that in mind.

These groups are socially-stratified. The core groups are much more likely than the non-core or disengaged groups to have degrees, be middle-aged, in managerial and professional occupational groups, and to have lived longer in their neighbourhoods.

They are also geographically-stratified: the “core” groups are, unsurprisingly, disproportionately concentrated in the most prosperous neighbourhoods as measured in terms of social deprivation.

Geographical variations

Reflecting the socioeconomic mix of different communities, we find significant variations in levels of voluntary action between and within regions. Between the regions of England rates for formal volunteering have varied between approximately 34 – 47% but within them the range has been far greater: by a factor of nearly 3 between the most disadvantaged deciles of some regions compared to the most prosperous parts of others (McCulloch, Mohan and Smith, 2012).

Of course the places where volunteering rates tend to be lowest are therefore those facing the greatest challenges, particularly in relation to poverty and unemployment, as well as in relation to public funding.
Economic change and its effects on volunteering

A feature of the data from the Citizenship Survey in 2009–10 was a clear indication that volunteering rates had declined in the most disadvantaged parts of England and Wales. An innovative study by Lim and Laurence (2015) provides powerful evidence of the negative effects of recession on engagement. They demonstrate, using the quarterly data from the Citizenship Survey, a reduction in the rate of volunteering, and in the average number of hours committed by citizens to voluntary activity from 2008 onwards.

Firstly they find a reduction in the proportions of the population involved in voluntary activity during the recession, and argued that this could not be accounted for by the likelihood that individuals themselves were experiencing hardship, because they controlled for individual characteristics. However the reduction in the rate of engagement was greatest for informal volunteering and there were notable geographical differences, at the expense of disadvantaged areas.

They also find not just a reduction in the rate of engagement but also in the level of engagement. The Citizenship Survey asked people to recall how many hours they spend on voluntary activities (both formal and informal) in the preceding four weeks. Lim and Lawrence’s analysis suggested that for both formal and informal volunteering there were substantial reductions in the hours committed, the timing of which coincided with the economic recession almost exactly. Their estimate was that there was roughly a 25% reduction in community engagement – and on this measure the social recession was considerably bigger than the financial one (Heath and Clark, 2014).

The implication was that adverse economic circumstances have detectable and relatively immediate effects on engagement, weakening the capacities of communities to cope.

Elsewhere Laurence and Lim (2014) show how labour market circumstances from the 1980s have traceable effects on engagement even decades later. In the UK they use data from the National Child Development Study (NCDS), which follows a cohort of individuals born during one week in March 1958. Respondents were followed up at various intervals (1974 (age 16), 1981 (23), 1991 (33), 2000 (42), 2008(50)) and questions on participation were asked in several waves of the survey. In addition the survey gathered data on the labour market histories of respondents. They show that controlling for numerous individual characteristics, adverse labour market experiences, particularly in the 1980s, when redundancy was the largest single mechanism through which people lost jobs, were also reflected in reduced levels of engagement even decades later. They emphasised that job displacement – that is, involuntary job loss through mechanisms such as redundancy or workplace closures - was demonstrably associated with reduced participation in later life. The effects emerged slowly over time, so the negative effects of job displacement which were apparent between the ages of 33 and 42 became more pronounced between the ages of 42 and 50. Their suggestion was that job displacement sets individuals on different career trajectories of engagement, stalling the rates at which they join organisations, and then producing a faster rate of dropout. This they attributed to the ways in which sudden job loss severed people’s networks (workplace, unions) through which they found opportunities to develop and maintain social participation.

This evidence suggests there are long-term effects on participation arising from adverse economic circumstances and – if it is not always possible to manage the economy so as to
minimise the impact of job loss - the implication is the need to provide support that keeps people connected to volunteering opportunities.

Demographic change and the future supply of volunteers

Demographic and fiscal pressures are currently forcing consideration of existing arrangements for meeting social needs. In this context, there has been discussion of the place of voluntary action, and specifically the question of whether or not more might be expected of post-retirement age-groups\textsuperscript{333}, and our work examines what differences there are in voluntary action between age groups, both before and after controlling for relevant socioeconomic differences.

There is a large amount of variation in engagement within age groups. Two people of the same age can differ greatly in their civic engagement, depending variously on their education, their social class, their working lives and so forth. In examining patterns of civic engagement for different age groups it is crucial to take account of these other factors that affect engagement.

All age groups are currently civically engaged, to a greater or lesser degree. There is not a major problem of non-engagement but the patterns for different age groups vary by type of civic activity.

We first consider rates of formal volunteering. We show that accounting for socio-economic factors, there is generally an equal likelihood of engagement in formal volunteering across the age groups. The over 70’s age group does, on average, have a lower likelihood of engagement, but there is great variation within this group.

The argument is illustrated with an example of how predicted rates of formal volunteering vary between age groups and of how they vary when controls are introduced for socioeconomic factors\textsuperscript{334} which were chosen because of their established relevance for levels of civic engagement generally (Bekkers and Wiepking, 2011; Musick and Wilson, 2008; Wiepking and Bekkers, 2012; Wilson, 2000).

Figure 1 shows the predicted population distribution of the propensity for formal volunteering by age group. This indicates that the likelihood of engagement in formal volunteering fluctuates slightly for groups between 20 and 60. The likelihood tails off for groups that are older. Additionally, the band around the regression line shows the variation around the average likelihood.

\textsuperscript{333} see Transcript of evidence taken before the House of Lords Select Committee on Public Service and Demographic Change. Evidence Session No. 5, Tuesday 23 October 2012.

\textsuperscript{334} Socio-economic factors included: gender, marital status, social class, education, respondent’s income, employment status, ethnicity, religious participation, self-reported health and social trust.
Figure 1 Predicted probability of engaging in formal volunteering by age (Citizenship Survey 2009–10)

Figure 4 shows the predicted population distribution of the propensity for formal volunteering by age group, when relevant socio-economic factors are taken into account. It shows that controlling for relevant socio-economic factors further flattens the distribution. The chances of someone being engaged in formal volunteering remain relatively steady between the ages of 20 and 70. The chances of someone being engaged drop off in the groups that are over 70 years old.

The figure also shows that the variation around the average likelihood of engagement in formal volunteering is larger in the age groups over 70. This indicates that these older age groups are quite different in terms of their composition. There are factors that are differentiating between levels of engagement of these groups that are not covered by the socio-economic factors which have been taken into account. Some individuals in these groups are just as likely to contribute to formal volunteering as individuals in the younger age groups (indicated by the top of the shaded area) but others are less likely to contribute to formal volunteering. This variability in the older age groups is notable. It indicates that suggestions about the feasibility of getting more older people to be involved in formal volunteering need to be tempered by an appreciation of the fact that these older individuals are a very diverse group.
Overall, when various forms of civic engagement, including informal ways of contributing to the community are taken into account, it is clear that, on average, older groups in British society are currently already participating in civic engagement to a high degree. There is also clear evidence that older age groups contribute more voluntary effort, in terms of hours, than their younger counterparts, after controls are introduced for socioeconomic factors. This is positive news in one sense for a country in which there is currently an ageing population: we can be reasonably confident that as the large “boomer” generations pass through into retirement and old age, there will be an increase in volunteer input (Commission on the Voluntary Sector and Ageing, 2015)

In another sense the picture is less positive. There is great variability, which is not fully accounted for by our statistical models, in the rate and particularly the level of engagement. The hours that people contribute become less predictable as the population gets older.

And although the contribution of the older age groups is important, the size of those groups, relative to the population of the UK as a whole, will remain constant, not expand; for example, population projections suggest that the 60 – 74 age group will account for between 15 and 17% of the UK’s population for most of the forthcoming century.

Conclusions and implications

The British evidence points to relative stability over time, which appears to hold true over a relatively long period.

At the same time there is evidence that economic conditions have adversely affected citizen engagement, both in the short term, as demonstrated by studies of the consequences of recession from 2008 onwards, and in the long term, as shown by work on the effects of job
displacement in the early 1980s on subsequent civic engagement. The effect seems to have been greatest upon informal volunteering, rather than on formal engagement, which tends to be dominated by groups experiencing greater economic security.

The evidence might suggest that voluntary action is, as the UN suggested in 2011, broadly a renewable resource, upon which British society can rely. Other than in response to economic shocks, it has appeared to be resilient. But to what extent might the British public respond enthusiastically to efforts to stimulate greater voluntary action? Here the picture is less positive. Sophisticated analyses demonstrate cohort variations in associational participation, with some related evidence of cohort reductions in charitable giving; we do not know if these translate into similar reductions for voluntary action. Analyses of the relationship between volunteering and ageing suggest that while there is evidence that rates of volunteering seem to increase as people get older (controlling for other socio-economic characteristics) there is nevertheless greater variability, and hence unpredictability, in hours volunteered as people get older. Moreover, engagement is already high: taking together formal volunteering, giving to charity, and associational membership, the proportion of the population not engaged in any of these pro-social behaviours is small (around 15%). So how much more can reasonably be asked of a populace that is already highly engaged? And how might greater activity be stimulated in communities where volunteers are in relatively short supply?

The post-2010 Governments have displayed a preference for “nudging” people towards pro-social behaviours (John et al., 2011) rather than the more targeted approach of their Labour predecessors but this does not, as yet, appear to have demonstrated substantial results in relation to volunteering. And some policies do not seem readily compatible with voluntarism. Consider housing policy: those who rent properties and receive some public subsidy in order to do so are now subject to restrictive financial limits which will likely result in their moving house more frequently than they might otherwise have chosen; yet residential stability is a good predictor of engagement. Economic policy promotes a very high degree of labour market flexibility, which is difficult to reconcile with regular commitments to voluntary activity. Rapid reductions in public sector funding, spatially concentrated in the most disadvantaged local authorities, also pose challenges for voluntary organisations in terms of the stability of their funding. There are long-term trends towards residential socioeconomic segregation – demonstrated by the work of Danny Dorling and others – which distance the better-off from the more needy communities.

It is not unreasonable to envision a society in which individuals are more likely to be engaged, and more highly engaged, in their communities. There must also be realism about what can be expected. There are many good reasons to encourage individuals to become involved in supporting charities (even if some of the direct individual benefits of volunteering are not as great as is often claimed: Bekkers et al., 2015). But policies need to be tempered with realism about the distributional implications, and the assumptions being made that communities will come when they are called to action. While there is a reservoir of voluntarism to be tapped, it is not bottomless, and it may not be possible to tap it indefinitely.

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**The size distribution of charities**

There are conflicting views about the value of small and medium-sized organisations in the third sector. For some, small and local institutions are the bedrock of the sector, and always have been so, as they promote virtues such as innovation and responsiveness; William Beveridge’s remark that “secession is the midwife of invention” is relevant here. For others, scaling up of innovation is the order of the day and large-scale organisation is therefore essential. There are however some contradictory views: the “uniformity of thought and action” of large charities was lamented by Ian Duncan Smith, but the expansion of such charities was surely a logical consequence of government policies designed to expand the role of the voluntary sector.

The debate isn’t helped by widely-varying definitions of what counts as a small organisation. One academic article quotes a Charity Commission definition of “small” as being below £20,000 and then proceeds to define smallness as having fewer than 3 staff – an expansive position since according to the major surveys of third sector organisations undertaken in 2008 and 2010, it applies to nearly 95,000 charities.
Definitions of between £25 000 and £1.5Mn – used in some recent studies – don’t narrow the field down much; in a typical year that would encompass c. 50 000 charities, or one-third of the population.

Other work has used definitions of below £250 000, or below £1 MN in the case of the Small Charities Coalition. The latter figure is 97% of registered charities. An upper threshold of £1.5Mn will include organisations in the top 1 per cent of the distribution. But note that this is all relative: Camilla Batmanghelidh described Kids’ Company as a small charity – which it was, relative to the major medical research charities.

The debate arguably isn’t helped by being framed in terms of the position of organisations in income bands widely used in commentary, as derived from NCVO’s Almanac of Civil Society. The point to note is that these are somewhat arbitrary, and do not get us very far. There is much movement between the income bands and very different answers can be given depending on definitions of the population for inclusion.

If figures are not adjusted for inflation there is apparent concentration of resources over time as organisations will move upwards in the size distribution. If one retains consistent sets of organisations over time – e.g. comparing the distribution of resources across income bands as defined at the start of a time period – then one will find a lower degree of concentration of income than if not.

Change over time – particularly growth in the upper income bands – is heavily influenced, in recent years, by the switch of public sector organisations into the charity world; again, this needs to be accounted for. Further details of relevant calculations can be provided if required.

And comparing differential growth rates – as Backus and Clifford (Journal of the Royal Statistical Society, 2013) have done – shows that while large organisations have undoubtedly grown more rapidly than small ones, there is also evidence of considerable growth of small charities. These organisations are not necessarily seeking the same sources of income so a portrayal of large charities squeezing out small ones needs further clarification.

In short, we need a sensible debate about what is distinctive about particular sorts of organisations and the contributions which they make. A debate based on defining them merely in terms of size results in some generalisations which are so broad as to be almost meaningless.

3 January 2017
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This note accompanies several previously-published papers and book chapters which might be of interest to the Committee.

The papers are based upon research carried out by the authors which has been published in various formats. As such we hope they provide useful contextual information for the Committee in relation to the funding of charities, the distributional aspects of charitable activity and in relation to the challenges for funders, charity supporters and government.

The identity of the charity sector: the need for a disaggregated perspective

Much debate about the charitable sector relies on large-scale statistical aggregates regarding the number of organisations or the proportion of income the “sector” receives from particular sources. This can be misleading because of the great variation between organisations in their funding mix. Using a sample of accounts of 7000 charities in England and Wales this paper illustrates the great diversity within charities, with some organisations almost wholly reliant on one or two income sources while others have a much more diversified income profile.


The dependence of the sector on public funding streams

There is concern about the reliance of the voluntary sector on public funding, particularly in relation to the issue of the sector’s independence. For example it has been claimed that some 27 000 charities receive over 75% of their income from public sources. We challenge this claim, using survey data and administrative data (1). We demonstrate the particular degree of exposure of charities operating in disadvantaged areas to public sector funding streams (2).

Sources:


The question of charity “deserts”

The Centre for Social Justice has drawn attention to community-level variations in the distribution of registered charities, arguing that the absence of these entities from some communities meant that the only source of social action was a “dysfunctional state”. Although such arguments rest on generalised arithmetical comparisons there is some evidence in support of them. However these variations have extensive historical precedent – John Stuart Mill remarked on them, for example, and they existed long before the advance of the welfare state; moreover they are strongly related to socioeconomic deprivation (1). More detailed investigations point to other sources of social action in disadvantaged communities (such as organisations taking other non-profit legal forms, or grassroots, below-radar organisations) which should also be taken into account in considering levels of voluntary initiative in communities — though whether these entirely compensate for the absence of charities is a matter for discussion. Furthermore, our work has revealed what we have termed local “ecologies” of charitable activity. In prosperous communities we have found strong and integrated networks of local charities relying on voluntarism and charitable fundraising, contrasted with relatively smaller number of charities dependent on external public funding in more disadvantaged places (2).

Discussion of the scope and limits of charitable initiative needs to bear these variations in mind.


The effects of recession and austerity

There are many local and qualitative studies of austerity but there has been limited systematic sector-wide data to examine this empirically. Clifford (1) uses a unique longitudinal dataset, which follows through time the population of charitable organisations in England and Wales since 1999, and assess the impact of recession and austerity by placing organisations’ recent annual income within the context of longer-term trends. Since 2008 median real annual growth in income has been negative for six consecutive years, leading to sizeable cumulative real income decline over the period. Mid-sized charities, and those in more deprived local areas, have been most significantly affected, consistent with concerns about a ‘hollowing out’ of the charitable sector and about the uneven impact of austerity. However there has also been considerable variation in the fortunes of charities working in different fields of activity.

It is important to understand whether the economic conditions experienced since 2008 are likely to have a long-lasting effect. Our evidence base on such issues is limited. In the USA there are long-term series of data on individual giving, which suggest that the proportion of individuals itemising charitable donations was relatively constant over most of the 20th century. Although individual contributions dip, they recover over time and there is some evidence that organisations were creative in terms of seeking out new income sources (2).

High salaries in English and Welsh charities

Evidence submitted by John Mohan, Professor of Social Policy and Director of the Third Sector Research Centre, and Steve McKay, Distinguished Professor in Social Research, University of Lincoln.

Introduction

1. Salaries of staff in charities are frequently the subject of media concern. Most of the studies of the topic, however, are of limited representativeness or robustness: they often consist of subsets of the charity population, sometimes with deliberate exclusions. An example is a study from The Times in December 2015, which omitted independent schools, which account for significant proportions of employees paid £60000 or more.

2. Is there a problem of high pay in charities and is this something that needs to be addressed? If so, how? The first point to make is whether there is genuine and extensive public concern. In oral evidence to the 2013 Public Administration Select Committee, the Chair of NCVO reminded the committee that there had been periodic media coverage of the question from the 1980s onwards, but noted that although his own organisation had invited the public to express their views by a dedicated email address, only 350 had done so. He therefore questioned whether concerns were widespread.

3. Variations in pay levels would be expected to relate to the complexity of the tasks expected of individuals, their own levels of skill and training, and the relative scarcity (or otherwise) of those with particular skills. Thus to the extent that charities employ personnel who are highly-skilled and in short supply, we are certain to find high salaries in charities. For example, charities in the educational, health and arts / cultural fields would be expected to employ highly-qualified teachers, medical practitioners and artistes respectively.

4. The likelihood of high salaries being paid can also be related to the complexity of the organisation regardless of sector. Thus organisations that operate across a larger geographical reach, including those operating internationally, entities that have large numbers of employees, and (in the case of international organisations) which have to operate in conflict zones or with due regard for local political circumstances, are likely to require individuals with high-level skills. For these reasons, and as we show in further analysis, the likelihood of high salaries being paid by a charity is increased if the charity is operating at the national or international scale, if it works in international development, and if it has large numbers of employees.

5. The prevalence of high salaries is not a function of their income sources, notwithstanding media allusions to the apparent association between receipt of
public funding, particularly for overseas development, and prevalence of high salaries. Once allowance is made for characteristics which capture organisational complexity and size, whether or not an organisation receives statutory funding does not emerge as having statistically-significant associations with high pay.

**Anecdote is not the singular of evidence**

6. The evidence base is thin. One report looked at the 150 largest charities while another focused on a still smaller subset of the charity population, organisations affiliated to the Disasters Emergency Committee. Another analysis chose 50 organisations on the grounds that they were among the best known charities according to a charity awareness monitor. The most recent press reports were based on data for the one thousand largest charities, albeit with some carefully-specified exclusions (e.g. independent schools, universities, quangos and NHS-run charities). In none of these cases can inferences be made about the wider population of charities. The only academic article known to have investigated the issue for the UK concentrated on the 100 largest charities.

7. The problem with a focus on the largest organisations – e.g. the top 50, 100 or 1000 charities - is that we can make inferences about these organisations, but not about the wider population, and it is therefore not possible to estimate the prevalence of high salaries across the sector in this way.

8. The same difficulty attends analyses which either focus on particular subsets of the population, as in the analysis of international development charities, or exclude others, such as private schools.

9. In contrast our work drew on a representative sample of 10 000 charities weighted towards those with annual incomes in excess of £500 000. This is the largest study of its kind in the UK and the most statistically robust. We also accessed authoritative surveys of individuals and their incomes which allowed estimation of the prevalence of high salaries in the private and public sectors.

*Charity salaries are not high compared to those of equivalent staff in other sectors*

10. Analysis of the Annual Population Survey shows clearly that the likelihood of an individual receiving a salary above £60 000 is highest in the private sector, followed

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335 [http://www.thirdsector.co.uk/Management/article/1174882/analysis-senior-pay-fair-price-good-leadership/](http://www.thirdsector.co.uk/Management/article/1174882/analysis-senior-pay-fair-price-good-leadership/)


337 nfpSynergy (2013) A chief concern: how CEO pay has changed in the UK’s best-known charities over the last five years; available from [http://nfpsynergy.net/chiefconcern-blog](http://nfpsynergy.net/chiefconcern-blog)


by the public and third sectors. The respective proportions were 6.2%, 4.5% and 3%, and the confidence intervals on these estimates do not overlap, suggesting that we can be confident that this survey measures real differences.

11. This may be an overestimate of the proportions for charities. Comparing our estimates of the numbers of people receiving salaries over £60,000 in our sampled organisations (c. 11600) with the estimated numbers of employees in total reported by those charities (650 000) shows a proportion of 1.7%. The APS figures for third sector employment are based on very small samples, and rely on people being aware of the status of their employer, factors which are likely to account for the discrepancy.

12. We can therefore be confident, at the very least, that there is not a general problem of excess salaries being paid by English and Welsh charities.

Key findings from analyses of charities accounts

13. We used a statistical approach (technically known as binary logistic regression) to explore the probability that organisations did, or did not, employ someone with a salary of £60,000 or greater based on a range of information about that organisation. We have a sample size of 9421 for the statistical estimates, mainly because of incomplete information for some charities.

The crucial variables associated with the likelihood of paying high salaries were:

a. **Size** – measured in terms of both the overall income of the charity – the proportion paying such salaries rose substantially with income – and the number of paid employees.

b. **Scale** - charities involved in any kind of international work were more likely to be paying higher salaries than charities operating on a national or regional basis, which in turn were more likely to have higher paid staff than those working within one or a small number of local authorities. This is independent of the size of their income, and suggests a strong association between the complexity of an organisation and remuneration. Not only are such organisations larger, the fact that they are operating across countries and continents means that their activities are inherently more complex and, in the case of international organisations, they must also operate with due regard to local political circumstances.

c. There was a **regional** effect. Charities based in London, or in the South East outside of London, were more likely to pay high salaries. This is likely to reflect the presence of many headquarters of national or international

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340 We focus on those charities with incomes or expenditures above £500 000. There are over 9700 charities of this size or larger in our sample, which collectively account for around 96% of the total expenditure of English and Welsh charities. We exclude a number of cases. Starting with 9727 cases with the relevant income criterion, we then drop benevolent institutions (n=80), housing associations (n=190), plus a few charities operating only in Scotland (n=25). This leaves an analysis sample of 9421.
charitable organisations and also the generally competitive labour market in those regions. This mirrors the findings from the survey analysis, based on the location of employees.

d. **Income sources**: proportion of income coming from trading activities – which will include sales of services, such as the purchase of education or health care by individuals - also tended to be associated with the presence of highly paid staff, and the number of them within organisations. Absent, however, was any evidence that the proportion of income derived from public sources was associated with likelihood of paying a high salary.

14. In short, it is the size and complexity of charities, combined with scale and location, that has most influence on the proportion of organisations which pay high salaries. Additionally, the receipt of high proportions of income from trading activities is also associated with an increased likelihood of paying high salaries.

15. Unless charities become smaller and less complex – and, by implication, thereby reduce their contribution to meeting social needs – there will continue to be a need for individuals capable of carrying out high-level tasks in the charitable sector, and there will continue to be a significant proportion of larger organisations that pay what appear to be high salaries.

**High salaries do not absorb significant proportions of resources**

16. If allegedly high pay is perceived as a problem what might be done about it? It is important to note that skilled and experienced staff have to be paid at a level sufficient to ensure a supply of such staff, but let us carry out a thought experiment about the effect of reducing their remuneration.

17. If we express the amounts paid to individuals we would find that they account for minuscule proportions of charity budgets. The great majority (two-thirds, according to our estimates) of people paid over £60 000 are found in charities with incomes greater than £10 Million. An arbitrary cap – set at the equivalent of an MPs salary – might affect at most 2000 staff paid over that level, and even if all of these were paid £100 000, would save around £25 000 per head, or a total of £50 Mn. That is not a trivial amount of money, but it is a tiny fraction of the tens of billions of expenditure of the charity sector.

**Personalisation of the debate is not constructive.**

18. The public could be forgiven for finding it easy to sympathise with *ad personam* criticisms. Most people do not know what a typical charity executive is paid and for someone on the national average level of income, any charity executive on over £60 000 will receive more than twice what they are paid. Equally, they will have little knowledge of the nature of the work carried out by a charity chief executive, and the associated pressures.
19. But nor do they know how much is received by the head teacher of their children’s school or their local GP, let alone a company chairman. It is easy to focus on high salaries and one reason which should be celebrated is that we have open traditions of charity reporting. We can actually see what salaries are and donors can respond, should they wish to, by switching their support. We can’t do this for social enterprises, nor for certain categories of organisation which do not have to follow charity Commission reporting guidelines. But we can for charities so inferences can be made about named individuals. Hence charities receive criticism while others get a free pass.

We should look at other costs incurred by charities

20. Personalisation of the debate is much easier and generates more headlines than consideration of other aspects of charity costs. For example, consider headquarters costs. These are not visible in charity accounts in the same way. Many charities who draw income from across the country are based in London. At least 60% of charities with incomes greater than £1 million have a head office with branches in other regions (according to the National Survey of Third Sector Organisations in England). 35% of such charities were in London, whereas its share of the charity population as a whole was barely half that (18%).

21. Governments have sought to redistribute civil service departments from London on various grounds such as the importance of economic use of public funds and also as part of policies aimed at reducing regional inequalities. Charities have no responsibility to consider the latter but they certainly have an obligation to their donors to secure economy. There is little doubt that, given high housing costs in London coupled with the growth of the graduate labour force in cities outside the capital, charities would be able to decentralise many of their head office functions. The associated cost savings are surely likely to be more considerable than those obtained by an arbitrary cap on senior salaries.

7 October 2016

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Background

MyBnk are a financial and enterprise education charity working with young people, aged 7-25.

Our vision is a financially capable and enterprise-driven generation. With young people at the heart, we have created a suite of high-energy and high-impact programmes covering topics such as saving, tax, debt, budgeting and university finance.

MyBnk work with mainstream and disadvantaged young people through schools and disadvantaged young adults out of school (care leavers, young offenders, single mothers, those on employability schemes etc.) We provide our services in the London area and through a network of operations in the South, South-West, North and North-East.

Since inception 10 years ago, our programmes have directly benefitted 160,000 young people in 760 institutions. Last year we armed over 32,000 young people with practical financial and enterprise skills, brought 400 enterprise ideas from drawing board to market place with interest free loans and helped 2,250 young adults move into independent living.

We train, support and evaluate 36 expert trainers who work with young people through over 100 schools and youth organisations. We collaborate and consult domestically and internationally with those that wish to benefit from our expertise in programme development, training or impact and evaluation.

MyBnk grew rapidly from 2007 to financial year 2013/14. In the last three years turnover has averaged £1 million. Approximately 80% of income is from trusts, foundations and donations and 20% is earned income from sales, contracts and consultancy.

Fundraising, contracts and costings

We are happy to offer an open invitation to members of the Committee to see one of our sessions in action.

Executive Summary:

- Charities face challenges not faced by businesses.

- Funders, where possible, should offer multi-year support, streamline application processes and consider compensating charities for the application and business planning process pre-award.

- There is a key role for statutory funding to fund charities to scale; trusts, foundations and corporates tend to favour innovation.

- Charities should be assessed as businesses with services judged on the price of provision rather than their costs.
Government and quasi-government organisations:

- Should not attempt to pass legal or tax risk on to charities.
- Should compensate charities similarly to organisations they pay to support them.

The definition of charity reserves should be widened beyond unrestricted funding reserves.

**MyBnk’s funding environment:**

1. We are experiencing increased competition for funding from trusts and foundations. The impact on MyBnk is that our ratio of successful applications falls. Although we do not directly apply for statutory funding from local authorities, these funds are being reduced.

2. Many trusts and foundations offer support for a single year; we have no agreed funding lasting more than three years. We therefore need to engage existing backers to support new initiatives and find replacements on a regular basis.

3. There is a mantra of local funds for local causes but fundraising regionally is very competitive, often subject to additional administration (e.g. need to have a local bank account) and usually for relatively small amounts (<£20k). We therefore focus on larger funders who can support us across England. However many direct us to geographic regions where they operate. In effect there is often a London bias.

4. Mid-size charities, such as ours, have to generate funding from a large number of sources (15+ in 15/16). To maximise our chance of funding we must orientate the application to the funder’s vision e.g. a particular age group, geography or innovation. This results in the majority of funding being restricted and, although we are fully costed, free (unrestricted) reserves are low. Exceptions include the Big Lottery which funds for three years through its major tranches.

5. Corporate funders often demand positive public relations outcomes or support for a volunteering programme. We need to absorb the costs of providing these services while protecting our core offering for young people. Our experience is it costs to support volunteers to be effective. Progressive funders understand this but many do not.

**Conclusion:** The funding environment for charities is becoming more competitive. Corporates are a partial substitute for statutory funds and trusts and foundations but demand more than just the service the charity provides.

**Harsher assessment criteria applied to charities than businesses:**

6. Government, corporates, trusts and civil society encourages charities to be ‘more commercial’ but assess charities to harsher commercial terms than they would a
business. Funding is offered for ‘front-line’ services only and is not to cover ‘back-office costs’ that make services possible.

7. A modern charity such as MyBnk must ensure strong governance, financial controls and processes, and market and communicate with direct supporters and wider environment. We must invest to be relevant and innovative, influence the sector, cooperate with other charities, government and industry. All of this must be paid for.

8. In a normal business, products or services are sold on price. There will be high and low margin products and the full cost of the service will be recovered. Nobody questions companies need marketing budgets, accountants and legal skills – yet there is a stigma at charities doing so as good practice to ensure sustainable services.

9. Those that support charities focus on costs. There is little opportunity for us to build efficiencies, generate margin and cross subsidise new innovations. Funding restrictions don’t encourage charities to invest in quality, impact and innovation. We meet funders who want low overheads but a demonstration of long term impact (which is expensive). Our view is funders and commissioners should look much more at the price to deliver the service rather than the costs the organisation is running.

10. An example is the BIG Lottery investment readiness programme. MyBnk understandably is required to go through a very detailed, multi-stage, application process. The support we aim to win is research and advice from a consultancy firm. If successful, the consultancy is permitted to charge day-rates on commercial terms. We, as the recipient charity may apply to cover our time based on basic salaries plus on-costs. The result is, if successful, we can recoup our basic costs related to the work, going forward only at approximately one third the rate of the consultant. Their costs are implicitly covering their marketing budget and unsuccessful applications. Our staff are as experienced as the consultants.

**Conclusion**: If charities are to be judged as businesses they should be expected to incur similar charges to businesses.

**Cash flow and tax risk pushed on charities:**

11. All charities must significantly invest in the preparation and application process for funding. An application process takes many months and is often delayed. We must balance the effort at each stage against the likely success. If successful, supporters will only fund expenditure from the date of the grant so we cannot recover our costs retrospectively.

12. There is an increasing tendency to structure grant agreements similar to contracts with payment in arrears. We understand the desire to ensure delivery of the service but the result is we, a small charity, have to finance the intervention on behalf of normally a much bigger institution e.g. a foundation or a corporate.
13. This may be compounded when grant agreements tend towards contracts which can expose us to tax risk (services provided attract VAT). We experience well-funded corporates and quasi-governments push this risk on us i.e. if VAT eventually is found to be chargeable the agreement will say it is our liability. As a non-VAT paying entity this is equivalent to our costs rising 20%.

14. The result is those funders who fund us up-front, end up underpinning the financing of the whole charity. The other implication is unrestricted funding will almost exclusively go to overhead recovery.

**Conclusion**: Financial, legal and tax risk should not be transferred to charities but assumed by better-resourced funding institutions.

**Collaboration and sharing:**

15. Charities are continually extolled to work collaboratively. We wish to collaborate to fulfil our mission that every young person has access to quality financial and enterprise education. We have no other agenda.

16. However we are restricted as to the funding we have to do this, given the model above.

17. Furthermore, we need to conserve our intellectual property. Commercial participants in the sector e.g. banks, insurance companies, fintech start-ups and so on have related commercial objectives e.g. customer acquisition or positive public relations. They may wish to leverage our market position for commercial gain. Commercial sector priorities change regularly. They may build their service one year and withdraw the next. This exposes us to ‘going out of business’ risk and not being there when the commercial sector moves on.

**Conclusion**: Focusing on costs rather than price means charities cannot be inherently profitable to build reserves. Generating unrestricted funds for core functions is very challenging and mid-size charities can be driven by the ebb and flow of grants rather than scaling efficiently. Charities are put in a position whereby they are providing liquidity from limited resources and large funders can push legal and tax risk on small charities.

**How can charities respond?**

Charities like MyBnk will look to expand unrestricted income such as earnt income but and donations. There are significant challenges:

- We are not a large enough organisation (£1 million turnover) to bid for contracts ourselves and so always have to partner with others.

- Financial and enterprise education is an important part of many contracted services e.g. NEET’s into employment, debt advice, progress in attainment, but, in itself, does not have outcomes that directly save, for example councils, money to be directly fundable.
We are seeking a mixture of partnerships and investigating social investment options as methods for overcoming this.

- Contracted services are often tightly squeezed on price so the prime partners has little to no opportunity or wish to subcontract to smaller organisations at a reasonable price. Quality and impact are subservient to reach and price.

- A quality based charity, such as ours, struggles against more emotionally-driven causes with the general public.

- Our services can appear expensive as we need to embed overheads in our fully-costed price.

Services and impact:

18. MyBnk are driven to provide high quality, impactful programmes to young people. We embrace innovation, creating new offerings and updating successful ones. There is a role for funding to both innovate and scale up proven services. Funders emphasis innovation over scaling up.

19. We may struggle to fund a service because we cannot prove its impact but cannot get funds to conduct further impact measurement.

20. For example, when financial education became a statutory in schools in 2014 we saw increased demand from schools. Our main school offering, Money Twist, was the highest rated programme on the Money Advice Service’s Evidence Hub. However some funders no longer wished to support the programme as within their internal guidance they do not fund anything that is statutory. With schools prioritising EBac subjects and putting limited resources into periphery subjects, our delivery volume went down despite the increased demand and statutory position. The will for financial education was evident within the Department for Education, Money Advice Service, HMRC, Treasury, APPG for Financial education for Young People, the banking community and so on but there was no mechanism for coordinated sustainable funding for delivery, quality control and impact measurement.

21. We innovate our services based on needs assessments, evaluation from existing work and input from young people. Often funding that is designed to be innovative has restrictions attached e.g. has to be delivered to X number of participants with X timeframe, or innovation that meets A or B KPI. Funders who want to fund innovation usually provide a 1-2 year commitment and will expect a continuation strategy in place before you start. This sometimes restricts the innovation itself.

22. Innovation done properly is expensive and complex. Yet we must detail the innovation to apply for the funding. As noted in the fundraising section we are often not able to backdate work that has gone into a proposal.
23. There has been progress in funders working collaboratively with charities and being receptive to ‘negative’ or unexpected results.

29 November 2016
Introduction

This written evidence is submitted by the National Council for Voluntary Organisations (NCVO). Established in 1919, NCVO is now the largest umbrella organisation in England, with over 12,000 charities and voluntary organisations as members.

NCVO’s mission is to help voluntary organisations and volunteers make the biggest difference they can, by championing and strengthening volunteering and civil society.

Executive summary

NCVO welcomes the opportunity to respond to this inquiry, which comes at a time when charities are facing increased pressures and new challenges in an operating environment that is perceived by many trustees as hostile.

Charities make an important contribution to the economy and society, not only by delivering public services but also through their campaigning role, building social capital and leveraging resources to tackle social problems.

Despite this, charities are having to adapt to changing attitudes by the public, as well as ongoing reductions in public spending whilst continuing to meet increased demand in their services and wider support. Furthermore, charities are having to respond to higher expectations about what they do and how they operate, particularly with regards to their governance.

The critical role of trustees and their responsibility in ensuring good governance have become more important than ever, both for individual charities and for the wider sector as a whole. The skills required for someone to be a trustee and meet their responsibilities effectively have become much more diverse, and most boards now have to ensure an appropriate presence of financial skills, legal knowledge, fundraising experience and business planning.

NCVO therefore supports the Committee’s aim to develop recommendations that will help charities strengthen their governance arrangements. This submission includes a number of recommendations for the Committee to consider, addressed at both government and charities. The aim is to ensure that the right governance structures are in place, organisations are accountable to the public and people have the necessary skills to meet their responsibilities as trustees.

However, it is important to remember that trustees are first and foremost volunteers: they are people who have chosen to give their time freely and manage this responsibility on top of other things they do in life, and should therefore not be discouraged or overburdened.
Trustees should feel empowered and supported in their role. That is why we are recommending a number of practical ways in which the experience of being a trustee could be made more accessible and positive. For example, government could amend the law to put trusteeship on a par with becoming a magistrate or school governor: this would not only raise the profile of trusteeship, but it would in practice make it easier to access. But more broadly, it is important that the Charity Commission strikes the right balance between its current focus on ‘enforcement led regulator’ and the need for ‘enabling regulation’.

There are also a number of steps that charities themselves should be taking to improve their governance and accountability. Such as:

- Implementing the recommendations made by NCVO’s inquiry into chief executive pay, and being more transparent about the salaries of senior staff members.
- Regularly reviewing the governance arrangements to ensure they are fit for purpose, including the tenure of their trustees and chairs.
- Investing in their boards and making use of existing programmes such as ‘Step On Board’, ‘Trustees Bank’ and ‘Reach Volunteering’.

The role of trustees and how they can be better supported also needs to be considered in the wider context of the changing relationship between the government and the sector. Here much of the focus has been on charities and public service delivery providers, required to compete for contracts amongst each other and against large business corporates.

Charities have characteristics that make them unique in the service delivery, so it is important that their knowledge and expertise are put to full use. We have therefore made a number of recommendations on how the commissioning and contracting processes should be improved, recognising the importance of social value and the relational and transformative way in which charities work.

However, the focus on public service delivery has happened at the cost of charities’ role as a voice for their beneficiaries and their cause, and as key contributors to the public policy discourse. Effective government engagement with the sector means more than just letting them bid for contracts. It means trusting the sector, and its trustees, to work in the way it does best and not restricting the space for charities and civil society to campaign.

Yet, over the past couple of years, there have been a number of government initiatives that have either directly or indirectly limited charities’ ability to campaign, sending the message to trustees that their charity’s right to speak out is under threat.

For the voluntary sector to be unleashed to do what it does best, the government and the voluntary sector need to chart a new course in their relationship. That is why we are recommending that government should recognise the valuable role of charities in building social cohesion and democratic engagement, and ensure the sector is part of the solution as our country exits the European Union.
And now more than ever before is the time for government, led by the Office for Civil Society, to restate and demonstrate its support for the Compact principles as a framework for respectful collaboration between the voluntary and statutory sectors, while recognising their separation and the independence of the voluntary sector.

**The purpose of charities**

**What is the role and purpose of charities in civic society in England and Wales?**

The voluntary sector is a vital part of the fabric of a strong society in the UK. There are more than 160,000 organisations that make up the core of the voluntary sector which are incredibly diverse and represent a range of sizes, aims and activities.

Charities make an important contribution to the country’s economy:
- The value of the UK voluntary sector to the wider economy – its Gross Value Added (GVA) – was estimated at £12.2bn in 2013/14.
- The sector also employs some 827,000 people – more than two and a half times the number Tesco employs, and over half the number working for the NHS.
- UK charities have an annual income of £43.8bn and spend £41.7bn each year helping millions of people in the UK and across the world. Their money comes from a range of sources, including donations from the public, trading to raise funds, and selling their services.

But most importantly, charities fill the gaps that government and the private sector cannot or will not, gathering together communities, including those that are hardest to reach, and enabling citizens to help each other.
- When delivering public services, charities reach into places government struggles to touch. Charities have a better chance to engage those who are hardest to reach, because they are based in the communities they intend to serve, and because their independence from the state is more likely to foster trust.
- They are also often more likely than the state to be able to develop innovative, nimble approaches. This is because they are prepared to take risks that arms of government are unable or unwilling to.
- Through their campaigning role, charities act as a voice for their beneficiaries and the wider community with which they have established a relationship. It is because of their reach and links into communities, including the most disadvantaged, that charities have not only the trust of those they represent, but the knowledge to speak out on their behalf.

As well as building financial capital, charities stimulate a flow of social capital by building local support networks and supporting some of the most vulnerable in society. The relational and transformative way in which many charities work means that charities not only offer help and aim to reduce needs, but while doing so they can also bring about a transformation of people’s capabilities.
And, last but not least, charities leverage resources to tackle social problems: there are countless foundations across the country that have a long history of helping people overcome disadvantage and lack of opportunity, supporting disadvantaged young people; and improving integration among communities.

- **How has this changed?**

Expectations of charities have changed considerably. As demand for services increases and government takes a back seat, charities are stepping in and taking a greater role in society. This has led to organisations being held to a higher standard of account, and charities say they increasingly have to do more to prove their effectiveness and show that their work leads to positive outcomes.

Over the past 5 years there has been a continuing shift in the way charities generate their income: earned income (from providing goods and services) is higher than ever before than income from donations and grants. The vast majority of this income is received by the largest charities, providing services under large contracts. This is indicative of a different operating environment for charities, and a different relationship with government: one where charities are seen mainly as service providers and have to compete amongst each other to win contracts.

On a broader level, charities are no longer the only types of organisations known for their focus on ‘social good’. This space that has traditionally been filled by charities is now opening up to a range of actors, with Community Interest Companies, social enterprises and hybrids of government, business and social activity emerging. The lines that define charities have become increasingly blurred, raising the challenge for organisations to establish their role and build relationships with their respective stakeholders, including government and the public.

- **What role can charities play in community cohesion and civic action?**

We believe that voluntary organisations and volunteers are at the heart of the society that people want to live in. Charities play a vital role in building social capital and one of the ways it does this is by growing and enhancing volunteering. Volunteering can contribute to community cohesion by:

- Bringing people together to tackle some of the biggest challenges we face, from helping people to develop skills and experience to find work, to transforming public services and building more resilient communities where everyone can make a difference.
- Providing people with a way in which they can express their views and take action on causes they believe in, part of an expression of citizenship and being part of a democratic society.
- Engaging a diverse range of people across communities and involving people from marginalised groups. Research has shown that there is a relationship between
volunteering and social activism, and a connection between volunteering and expressions of other forms of citizenship like voting. The voluntary sector and volunteering can also play an essential role in the future of a new generation of user-led, co-produced public services, transforming public services and the way they work with communities and empowering citizens to have a say. Volunteer involvement in public services offers opportunities for people to come forwards to give their time to a cause they value deeply, and has the potential to improve outcomes for communities.

- How does the sector benefit from volunteering?

Volunteers are at the heart of the voluntary sector and most charities rely on the support they receive from volunteers who give their time, energy and skills. The number of volunteers involved in supporting charities far outnumbers the 800,000 employees. Many smaller charities are run entirely by volunteers. For most charities, volunteers bring their skills and experiences to charity governance as trustees. Volunteers contribute skills and experience which enable charities to enhance their work, increase their impact and reach. As individuals choosing to give their time for free they also bring unique credibility, objectivity, luxury of focus, freedom to criticise, and an ability to experiment.

However, viewing volunteering simply as an activity undertaken in the context of a registered charity would be quite a narrow view. Volunteers give their time to a diverse range of organisations and groups, including in the public sector, and undertake a range of roles (or multiple roles). Around the UK, 15.2 million people already volunteer every month to support a variety of causes in their communities. Today, there are an estimated 3 million volunteers in health and social care, over 500,000 citizens supporting policing through voluntary action and 15,500 volunteers in libraries.

We are also seeing examples of charities working more in partnership with different sectors, which is opening up new opportunities for volunteers and helping charities find new ways of involving volunteers and increasing their impact. For example, charities are working with businesses to develop employee supported volunteering programmes and are involving volunteers in delivering or working in partnership with public services. There are more opportunities to build relationships across sectors for mutual benefit that can enhance volunteering.

343 https://data.ncvo.org.uk/a/almanac16/workforce-2/.
346 King’s Fund.
How has the status of volunteers changed?

Volunteering seems to have had a higher profile in recent years, with government and others recognising the value of volunteering more. However, whilst recruitment and retention of volunteers is an issue for charities,349 there has been too much focus on how to increase numbers rather than addressing the barriers to volunteering that exist at a local and organisational level. In addition, new national initiatives have been introduced and although these have been welcomed, the voluntary sector would like to see more support for existing volunteering initiatives.

We have also seen an increasing movement towards the professionalisation of volunteering, with widespread development of training, volunteer job descriptions and personalised volunteer programmes. On top of this there has been a rise in qualified 'professionals' volunteering for charity in light of the economic downturn. The emergence of volunteer management and coordination as a career field has increased formalisation and professionalisation.

The implication of this is that volunteering may be increasingly perceived as a means of developing skills and a career, especially for young people. This professionalization can also lead to new expectations being placed on volunteers, particularly trustees.

Recommendations

NCVO supports the Committee’s aim to improve governance and help charities strengthen their governance arrangements. However, we would urge the Committee to ensure that any recommendation reflects the fact that charity trustees are first and foremost volunteers. They are people who have chosen to give their time freely and manage this role on top of other things they do in life, so it is important to manage expectations and avoid placing excessive burdens on them.

We recommend that Government should create a new access to volunteering fund. By contributing towards the costs and expenses incurred by voluntary organisations, the fund would provide an opportunity to build on the legacy of the Paralympic Games and open up volunteering opportunities for more people.

NCVO recommends that greater focus should be placed on the following aspects of volunteering:

- The quality of the experience for volunteers. The quality of roles on offer and the quality of the volunteering experience is crucial to enabling effective recruitment and retention of volunteers. Organisations should have systems and processes in place to ensure good practice is embedded. This should ensure ongoing support, recognition

for volunteers’ contributions, address positive relationships/conflict within groups and involvement of volunteers in decision-making.

- Volunteer management and the value of investing in it. NCVO’s recent survey of 723 volunteer managers (2015) showed that there is an ongoing need for volunteer management training and support but that volunteer managers often don’t have a budget available to support their personal and professional development (38% of those surveyed had no training budget).

- Improving access to volunteering and addressing barriers.
  - We need to find ways that allow people to fit volunteering into their lifestyles. The most common reason for stopping volunteering is ‘not enough time due to changing home or work circumstances’ (41%). Developing a more diverse range of opportunities, including those that are more flexible or offer short-term engagement like micro-volunteering may help to address this.
  - Financial circumstances should not be a barrier to volunteering, so volunteers’ expenses, like travel, should be covered. In challenging economic circumstances, however, some organisations struggle to pay expenses, which can disadvantage certain volunteers.
  - According to government figures, disabled adults are less likely to volunteer in comparison to the rest of the general adult population. A grant programme, such as the Access to Volunteering Fund, could help increase the involvement of people with disabilities in volunteering, as demonstrated by the pilot Access to Volunteering Fund (2010).

This will help to ensure that we are developing an approach to volunteering that is fit for the future. Charities will need to adapt their approaches to engaging and supporting volunteers taking into account: demographic change, changes in people’s lifestyles and how people want to volunteer and ways to embrace digital tools to help facilitate this change.

Pressures and opportunities

- What are the main pressures faced by charities currently, and what impact have these had?

350 https://data.ncvo.org.uk/a/almanac15/motivations-and-barriers-to-volunteering/
354 The Access to Volunteering Fund was a grant programme piloted in three areas, aimed at increasing the involvement of disabled people volunteering. The programme supported an estimated 7,000 disabled volunteers and engaged organisations that had no experience working with disabled people, as well as organisations that had never previously worked with volunteers. The volunteers involved reported an increase in confidence and self-worth, with 88% experiencing improved wellbeing and 50% experiencing a reduction in social exclusion and isolation.
The environment in which charities are operating has changed significantly over the last decade, and while a number of initiatives have proven helpful, for many charitable organisations this is a difficult time. Many charities are not thriving but on the contrary are struggling to survive.

There are several reasons for the precarious position charities are in:

- **Rising demand**
  Uncertain economic times are putting more pressure on vulnerable people, who turn to charities for their support and services. There are concerns that this trend could be exacerbated by the result of the EU Referendum, leading to a further increase in demand by those who are economically and socially disenfranchised.

- **Challenging funding environment**
  Like many organisations, charities’ income has been affected by the financial crisis and subsequent tightening of government spending. After steady growth in total sector income through the early 2000s, income did not exceed its 2007/08 peak (£43.2bn) until 2013/14 (£43.8bn), the most recent year for which data is available. Individual giving has largely remained stable in the intervening years, while income from government has fallen, with the exception of the year 2013/14 when there was a small increase in government funding compared to previous years. However government funding has tended to move away from grants and towards contracts, leading to a loss of the operational and sustainability benefits that grants provide.

- **Increased scrutiny**
  The status of being a ‘charity’ no longer automatically leads to an organisation engendering the public’s trust, and some charities have found themselves the object of intense media scrutiny over recent years. This scrutiny has often raised legitimate questions and helped identify areas of clear public concern. In the longer term it will therefore be an important contributing factor to charities improving their practices and responding to changing expectations about how they should operate. However, it does raise challenges in the short term, as charities have needed to respond swiftly and rectify any problems in order to address the public’s concerns.

- **Pressures on governance**
  The critical role of trustee performance and the responsibility of trustees in securing good governance have been the common lesson learnt from recent failures in charities. It has become more important than ever for individual charities to ensure the appropriate governance structures are in place, and create the environment in which trustees and paid staff work together in a symbiotic relationship to produce effective results in line with the charity’s vision. This is important from the wider charity.

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355 NCVO, UK Civil Society Almanac, 2016.
356 Ibid
perspective as well because the charity sector as a whole is damaged by the poor standards of governance displayed in isolated cases.

- **What opportunities do charities have in the current environment?**

  Despite the recent negative headlines that some charities have received, it is important to remember that the majority of people trust charities, continue to support charities either by giving their time or they money, and see charity as the main way in which to do good (as demonstrated that up 5,000 new charities are set up every year).

  This is a strong confirmation that the charity model is fundamentally working: people still believe in charity and that charities play a fundamental role in society.

  NCVO believes that charities’ role is going to be even more important in light of the EU Referendum result. The EU Referendum has thrown into sharp contrast pre-existing social tensions and divisions within communities, which urgently need to be addressed in order to rebuild a thriving democratic society. Large, small and medium-sized charities are well placed to be part of this solution, as they already form an essential part of society.

  The reason charities can play an important role is that thousands of them are responsible for delivering services to communities in need and to individuals which the state has no chance of reaching without them. In most cases they have reached into places where existing public services have failed to go. They respond in real-time to individuals’ needs and shape services around the person, not a funding opportunity. They are embedded in the communities they serve and supported by an army of committed volunteers, many of which have real-life experience of the need the charity is meeting.

  Furthermore, charities are uniquely positioned not only because they are able to meet particular needs, but because of the relational and transformative way in which many of them work with their beneficiaries. Charities often help the most marginalised whilst at the same time enabling positive relationships with sympathetic professionals and volunteers. Charities can also bring about the transformation of people’s capabilities, offering hope and a fresh start, rather than simply the reduction on their needs.

  These additional benefits brought by charities and their links into communities are especially valuable as government takes steps towards building better community cohesion and responding to the social needs and tensions that the Brexit vote has revealed.

- **Are there specific pressures affecting particular types of charity?**

  Smaller and medium sized charities are suffering disproportionately in the current funding and contracting environment.

  The current funding and financial landscape shows a great disparity between the fortunes of larger charities and the rest of the sector. In 2013/14, charities with an income of £10m to
£100m saw their income increase by 3.7%, while those in the categories below £1m have faced considerable financial challenges. In particular:

- Smaller charities have experienced higher income volatility than larger charities.
- Small and medium sized charities lost more income proportionally than larger charities.
- Small and medium sized charities have been systematically excluded from the commissioning and tendering of contracts, due to their size, specifications and complexity.

There has also been significant variance in the way that different parts of government and local authorities have implemented their cuts, meaning that cuts have been felt unevenly across the sector. For example, equalities charities and infrastructure have been considerably impacted.

NCVO has also received anecdotal evidence that the following categories of charities are facing additional challenges compared to the rest of the sector:

- Charities that campaign for unpopular causes. We are concerned about the number of reports from charities working with disadvantaged communities and ethnic minorities, who have experienced an increase in harassment and abuse following the result of the EU Referendum.
- Charities that fundraise. The recent scandals about charity fundraising practices and the consequent changes to fundraising regulation mean that many fundraising charities are going to comply with new requirements, such as the Fundraising Preference Service. Furthermore, the Information Commissioner’s Office has recently updated its guidance on direct marketing, making it clear that it also applies to charities that want to communicate with their donors and supporters. All these changes are supported by NCVO, since we believe they will help restore public confidence in fundraising and ensure donors are treated fairly and respectfully. However, there will inevitably be a period of adjustment and unsettlement for many charities as they have to examine and change their fundraising practices.

• **Recommendations**

Government should recognise the valuable role of charities in building social cohesion and democratic engagement, and ensure the sector is involved in the negotiation process led by the Department for Exiting the European Union. It is important that formal engagement opportunities are in place to ensure the sector’s views and contributions can be fed into the discussions.

The contribution of charities to the public policy debate through their advocacy and campaigning should be recognised and respected by government and the Charity Commission. An important step government could take to demonstrate its recognition of
charities’ campaigning role is the implementation of the recommendations made by Lord Hodgson, following the review of third party election campaigning.357

- **Innovation**
- **How do charities seek to innovate, particularly in the digital arena?**

Academic literature frequently refers to the innovative capacity of charities, citing proximity to service users or knowledge of issues not known to policy makers as factors in enabling the identification of new approaches. Resource insufficiency may also drive the need for new or alternative solutions to old problems. Nevertheless, there are references in the academic literature to charities being ‘innovated out’ and more anecdotal evidence that the current operating environment is not conducive to innovation.358

In particular, charities highlight that mechanisms used in public procurement such as payment by results inhibit rather than encourage innovation by reducing tolerance for experimentation and the failure that is a necessary component of innovation. Similarly, the challenge of generating surpluses on public sector contracts to generate risk capital has been attributed as an issue. While it could be argued that trusts and foundations provide the appropriate risk capital for the initial stages of innovation, this ‘pump priming’ model is predicated on statutory funders acting as stage 2 funders who would test more broadly whether innovations have wider application. Finally, it could be argued that in an era where charities are under more scrutiny than ever, the licence to take risks and fail that is an important part of the innovation process is reduced.

- **Recommendations**

The role of capital, both for early-stage innovation and scaling, and public procurement processes should be further explored. This should provide commissioners with a willingness to experiment and open up space for innovative approaches; to recognise that grantmaking is an important and appropriate mechanism for the transfer of resources where innovation is desirable359; and to put in place procurement processes that enable small and medium charities to engage and deliver alternative approaches.

Within charities, the innovation process and culture could also be improved. NESTA360 notes that ‘eureka’ moments are rare and that well-designed processes and a culture that embraces risk are conducive to greater capacity for innovation. Support to build this

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capacity is available and could be delivered more widely, although this in itself requires funding. Challenge funds, such as the Cabinet Office Innovation in Giving programme, run by NESTA, also offer a successful model for encouraging innovation.

- Governance and leadership
- What skills are required to lead and manage a charity?

Over the past few years, charities have been the subject of a number of scandals: from the collapse of Kids’ Company, unsavoury fundraising practices and involvement corporate partnerships, to media scrutiny of executive pay.

The recurring theme throughout these issues has been the importance of governance as a means of preventing bad practice and the role of trustees’ in avoiding charity failures. The case for good governance in charities led by motivated trustees with an understanding of their role, appropriate skills and ability to lead has therefore never been clearer.

In particular, it has become apparent that trustees need to be equipped with a range of skills, depending on a variety of factors such as:
- the size of the charity;
- how it operates;
- what it does.

The lack of sufficient finance skills and fundraising knowledge have especially been at the heart of some of the most recent governance failures.

NCVO would also argue that the way in which charities are governed has not been appropriately reviewed and updated to ensure different governance models are in place to respond to different needs.

In many organisations a step-change is necessary to update and improve their governance: this could bring about huge improvements in the relevance and quality of the sector’s delivery to its beneficiaries. Too often, boards in the sector lack the skills that they need in this day and age and too often, they can struggle to meet good practice. Furthermore, boards in the sector are nowhere near as diverse as they could and should be, a lack of diversity that can lead to narrow thinking and that presents barriers to being able to most effectively represent the diversity of the beneficiaries that they seek to serve.

- What support exists to develop these skills within the charitable sector?

There is a wealth of existing guidance describing what good governance looks like. Most prominently, the Code of Good Governance describes how an effective board operates effectively, and is currently being reviewed and updated to reflect the latest thinking about best practice in charity governance.

There is also a range of resources available to help organisations improve their governance. Programmes like ‘Step on Board’, ‘Trustees Bank’, and ‘Reach Volunteering’ already provide
a range of services to help organisations improve their governance and recruit skilled trustees.

- **How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**

As highlighted by the review led by Dame Mary Marsh, the key problem is that many organisations in the sector are unwilling or unable to invest in a significant way in their boards (whether that be recruiting new and more diverse trustees, training and inducting trustees, carrying out board performance reviews or individual appraisals).

NCVO agrees with the review’s conclusion that the answer should not be a top-down, Government-funded capacity-building programme. Instead there is strong a case for encouraging charities to invest more in their boards so trustees feel empowered and supported in their role.

**Recommendations**

The sector, in collaboration with the Charity Commission, should carry out a review of existing governance models, and ensure different governance models are in place to respond to different needs.

Government and the Charity Commission should support trustees as they make the changes necessary to change the structures and behaviours that undermine their effectiveness as a board. In particular:

- The Charity Commission should review the information and guidance it makes available to new trustees, both in terms of its content and how it is communicated to trustees, so that it is widely disseminated but most importantly it sends the right message to trustees about the importance of their role, their responsibilities and the importance of continually investing in their skills. For example, at the moment when someone becomes a trustee of a charity that is also a company limited by guarantee, they receive a welcome letter from Companies House which explains their duties as a director and signposts to relevant resources and information. The Charity Commission does not provide such a service, which is simple yet would be effective in ensuring trustees feel supported and valued in their role.

- Government should amend the law to put trusteeship on a par with becoming a magistrate or school governor. This would not only raise the profile of trusteeship, but it would in practice make it easier to access. By extending employees’ existing right to take reasonable time off for certain public duties (e.g. to serve as magistrates, councillors or on the governing bodies of schools) to being a trustee in the social

sector, Government would be taking an important step in helping improve the supply of individuals onto boards in the sector.

NCVO also recommends that charities should regularly review the tenure of their trustees and chairs. In his 2012 Review of the Charities Act 2006, Lord Hodgson recommended that trusteeship should normally be limited in a charity’s constitution to three terms of no more than three years’ service each. Any charity which does not include this measure in its constitution should be required to explain the reasons for this in its annual report. Although we do not necessarily endorse the three-year cap, especially for smaller charities, we agree that one of the responsibilities of trustees is to try to refresh and bring in new ideas and look at new approaches.

Accountability

- How can charities ensure that they are properly accountable to their beneficiaries, their donors and the general public?

By law, charities over a certain size are required to state what their charitable objectives are and how they are meeting them in an annual report to the Charity Commission, which are publicly available online. In addition, they submit a range of additional information to the Commission in the form of a Statement of Recommended Practice (SORP) which applies across the UK and Republic of Ireland. This includes detailed information on how they are spending their money and the state of their financial reserves.

Transparency around charity funding has improved significantly in recent years. Many charities publish detailed information on their website about their activities and how they allocate the funds they receive. However there are areas where this could strengthened further such as senior executive pay.

What, if any changes, might this mean for current arrangements?

An increasingly important area of charity governance is the involvement of beneficiaries and of the people affected by the cause in the running of the charity. Beneficiaries bring a unique perspective to any discussion about the work of a charity because they can talk with direct experience about what it is like to be on the receiving end of your services. Charities involve their beneficiaries in their work in a number of different ways: some may make direct appointments to the board, others may form an advisory group or panel or consult them on different issues.

Recommendations

Charities should adopt the recommendations made by the Inquiry into Charity Senior Executive Pay (NCVO, April 2014). The key recommendations suggest that:

- Where trustees feel high salaries are necessary to attract the right people, trustees should explain their rationale openly.
Charities should publish the exact salaries of named senior staff members in an accessible place on their websites, giving donors ‘two clicks to clarity’. This goes further that the legal requirement to provide an indication of the number of staff in pay bands over £60,000 in their annual report.

Charities should publish the ratio of the highest salary to the median salary across the organisation.

Charities should explore further ways in which they can offer their beneficiaries greater involvement in their governance, integrating elements of joint decision-making between the people they supports and people with a background in charity governance.

Resource management

- What are the current challenges to financial sustainability, as well as efficient resources and risk management for the sector?
- How can these challenges be overcome?

Recent NCVO research into the financial sustainability of the voluntary sector\(^{362}\) drew in evidence from a broad range of sources, including the NCVO Almanac, to examine trends in the income, expenditure and assets of charities. The research found that while the sector’s income had slowly recovered since the financial crisis, the aggregate figures masked a significant redistribution of the sector’s spending power from smaller to larger organisations.

This conclusion was reaffirmed and examined in greater detail in subsequent research for the Lloyds Bank Foundation, focusing specifically on the experience of small and medium sized charities\(^{363}\), and confirmed by the most recent NCVO Almanac 2016 figures, in which almost all growth in the sector’s income was attributable to a small number of the largest charities.

Small and medium sized charities face significant barriers to engaging in public service delivery, in particular a general trend towards larger contracts, with unnecessarily burdensome bidding and reporting requirements, short contracts as standard and limited pre-procurement engagement, inhibiting the ability of smaller organisations to bid for work. This has affected their ability to diversify their income as funding from government has overwhelmingly shifted from grants to contracts. Trends in commissioning indicate that without further policy intervention, these barriers may continue to grow rather than shrink\(^{364}\).

These issues have arisen in the context of reduced voluntary organisation capacity and growing demand for their services, as public expenditure and household income have fallen.

\(^{362}\) See A Financial Sustainability Review of the Voluntary Sector, NCVO 2015
\(^{363}\) See Navigating Change Report, NCVO 2016
\(^{364}\) Many of the challenges for smaller organisations in public service delivery were detailed in a recent NAO report on SMEs.
In order to keep frontline services running, many smaller organisations have cut back office and management capacity, limiting their ability in the medium term to adapt their funding models, or to even engage with funder programmes designed to improve their sustainability. Use of reserves or sale of assets to fund ongoing expenditure by some smaller organisations has also left them vulnerable to further financial shocks.

**What lessons can be learnt from past mergers or dissolutions of charities?**
Mergers and dissolutions are normal parts of charity lifecycles, and are not inherently problematic when well planned and managed. Charities may naturally dissolve if their charitable purpose is achieved, or where the trustees decide their purpose can be best achieved by transferring assets to another organisation with similar objects. Similarly, mergers can result in more resilient organisations with a greater capacity to achieve social impact.

Dissolutions that are managed poorly can place charity beneficiaries at risk of sudden service withdrawal, reduce the chances of services, staff and assets being successfully transferred to other organisations, and create reputational risks for the wider voluntary sector, where such an instance is widely reported on. Ensuring trustees have the requisite financial skills and capacity to manage organisations sustainably is clearly important, but there is also a role for the regulator in detecting and addressing poor financial management before it results in the problems described above.

**How can charities effectively deliver services and be assured that their work achieves successful outcomes?**
Charities need to know that their interventions are worthwhile. Being mission driven, the ultimate metric of their success is the impact that they have.

Charities are often founded by people with direct experience as service users, or have services users on their trustee board. By being close to their users and communities, voluntary organisations often have a unique perspective on needs and how to improve services. This includes identifying where earlier intervention could have prevented crisis.

Often based within the communities they work with, charities bring a local expertise to public service delivery and are able to reach and provide a voice for some of the most marginalised and isolated people. Charities are also able to use their advocacy role to apply the knowledge and expertise gained through working with service users to influence service improvement.

Demonstrating consistent achievement in contributing to long term impact, such as the achievement of wellbeing or reduction in recidivism, is a challenge for all sectors. This does not diminish the importance of these goals but it does mean that we should be realistic when setting expectations for charities delivering public services.

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365 See *An insight into the future of charity funding in the North East, Garfield Weston Foundation 2014*
It’s essential that service improvement is seen as a journey, rather than a destination: failure is acceptable as long as lessons are learnt and changes made. Key to success are: measuring what matters, including making greater use of qualitative evidence such as insight provided by service users; clarity on the outcomes and impact sought as well as a robust theory of change; access to relevant data, including that held by commissioners; promoting a positive learning culture in which honesty is rewarded rather than fingers pointed; and sufficient resource to ensure that quality can be maintained and user needs met.

- **What are the benefits and challenges of funding for charities being derived from commercial contracts?**

Many voluntary organisations have pioneered the services they provide – by being the first to identify and meet a need and then persuading the state to take responsibility for making the necessary services available more widely. As such, in some case receiving statutory contracts can be seen as recognition that a voluntary organisations is delivering a high quality service.

For organisations seeking to expand their services, statutory income can be crucial - though it must be recognised that for other organisations scaling up might neither be possible nor desirable, for example because their mission is to provide a specific service to a small and well defined community.

Winning statutory contracts can help to diversify an organisation’s income streams, better preparing them for financial shocks. However, a business model based predominantly on winning statutory contracts may not be sustainable, particularly given the ongoing need for public authorities to meet challenging spending targets.

Equally, poor commissioning practice can prove extremely challenging for many voluntary organisations to navigate. Procurement processes are often unnecessarily burdensome, failing to make use of the light touch approaches permitted by the Public Contract Regulations 2015. Short term contracts exacerbate this, leaving little time to embed and improve a service before bidding starts afresh. This is a significant drain on charitable resources especially given that contracts often do not cover the full cost of delivery, never mind the time taken to bid.

The use of inappropriate funding mechanisms, such as payment by results for supporting those with complex and multiple needs, can both distort service delivery and cause cash flow problems for providers. For example, the use of PbR in the Work Programme led to ‘creaming and parking’ by prime providers and the withdrawal from supply chains of a number of specialist charity providers for whom the programme was financially unsustainable.

Each of these issues, plus the increasing aggregation of services into larger contracts, is more challenging for smaller organisations to manage and as a result they are losing statutory funding. As mentioned above, recent NCVO research has found that whilst
voluntary organisations with total income over £100m per year saw their government funding grow by 18% between 2009/10 and 2013/14, all other income bands saw falls.

- **Recommendations**
  Funders should have a role in ensuring that recipients have strong governance arrangements and financial monitoring in place, by including these as requirement of the funding and putting in place appropriate financial check. It is important however that such requirements remain proportionate to the scale of the funding in question, and recognise in particular that smaller organisations have seen the greatest relative falls in income compared to other charities, so their financial position and reserves may in general be less strong than larger charities.

While many charities are successfully adapting to the current financial climate, many of the challenges described above, particularly with respect to public sector commissioning, require government intervention. NCVO recommends that:

- Government should systematically collect evidence on the use of payment by result contracts, so that practice may be improved. Government commissioners should be required to use the NAO’s analytical framework for decision makers when considering payment by results contracts and encourage other public bodies to do the same.

- When developing new payment by results programmes, government should plan for funding to support voluntary sector organisations to build skills in financial planning, risk assessment and modelling of contracts. However, commissioners should also recognise that developing these skills can be a disproportionate burden on smaller voluntary organisations and that mixed funding models that include grant funding may be more appropriate.

- The Social Value Act should be strengthened so that there is a requirement for authorities to ‘account’ for and report on social value in their commissioning. As it stands, commissioners only have to ‘consider’ social value when commissioning services. Similarly, commissioners should be required to ‘account’ for pre-procurement consultation and engagement with users and providers when looking to include social value in a contract. We also believe that the Social Value Act should be extended beyond services to good and works, and that reference to the EU procurement threshold clause should be removed.

- The government should explore alternative ways to allow greater participation of charities and other SMEs in public service markets, including by scoping out the impact, effectiveness and efficiency of contracts that support engagement with smaller organisations so that we can build up a better picture of the contribution they make.

- Where breaking down contracts is not feasible, the government should support the building of voluntary sector consortia. Consortia are a vital route, through...
collaboration, to innovation and efficiency savings but they require support to
develop and previous funding streams, such as Community Right to Challenge grant
fund administered by the Social Investment Business, are no longer open. We believe
that government should establish a ‘consortium development grant fund’, potentially
in partnership with the Big Lottery Fund, to provide seed funding for organisations
seeking to establish local consortia.

- Government should provide match funding to enable piloting of a model that upskills
both commissioners and providers from a local area simultaneously, starting at the
beginning of a commissioning cycle and providing support up until tenders are
submitted. This would effectively combine elements of local commissioning
academies and the commercial masterclasses.

Social Investment

- What is the potential of social investment and social impact bonds? What are the
barriers to fulfilling their potential?

Social investment is an important financial tool that can help voluntary organisations
improve their sustainability and impact, where repayable finance is an appropriate option
for them. NCVO works closely with key social investment stakeholders such as Big Society
Capital and the Access Foundation, and supports various social investment initiatives such
as the GET Informed campaign and the development of the GoodFinance website.

Smaller organisations may experience difficulty in accessing social investment due to the
high cost of borrowing smaller amounts, an issue which key stakeholders are keenly aware
of and are working to address, using blended finance models. Repayable finance evidently
requires income to repay, and the challenges facing charities with respect to public sector
commissioning trends may be acting to reduce demand as organisations are unable to
access the funding streams that could enable borrowing to scale up or improve their
sustainability. We are supportive of continuing work across the sector and government to
improve the social investment market, although we emphasise that it should not be
prioritised by government to the exclusion of other programmes addressing the challenges
facing the voluntary sector.

Social impact bonds are an intriguing development in the commissioning sphere, but the
evidence base is currently not sufficiently developed to establish whether they are better
than traditional funding models. The key question regarding more widespread use of the
model is not whether they are capable of achieving impact, but whether they do so better
than other models in terms of cost-effectiveness and achieving impact.

Research being undertaken by the University of Oxford, looking at evidence from existing
SIB evaluations indicates that many of the proposed benefits ascribed to the SIB model have
yet to be realised in practice\textsuperscript{366}. To take one example, the evaluation report for the Peterborough SIB found that while the programme had successfully reduced reoffending, there was “no compelling reason to believe that SIB funding on its own fosters innovation”\textsuperscript{367}. Some of these issues may be explained by the fact that as SIBs are a form of payment by results commissioning, and as such they inherit many of the qualities of their parent model. Consequently, they also experience many of the same design and implementation challenges, as set out in a recent NAO report\textsuperscript{368}.

NCVO remains open-minded about the potential for SIBs to be an effective funding model, and has repeatedly called for more research into their efficacy, using counterfactuals built into their design and evaluation. The recently established Government Outcomes Lab will be exploring many of the challenges and barriers facing SIBs and we look forward to supporting their work where possible. However, in light of the many other challenges facing the voluntary sector, we have expressed concern that the government has focused such a considerable proportion of the Office for Civil Society’s resources on what is a relatively untested and unproven model via the Life Chances Fund.

- **Recommendations**

  Government should ensure that an appropriate range of funding models are available to the sector, re-calibrating its focus from social investment.

  In particular, more work needs to be done to:
  - Support local philanthropy by match-funding donations from businesses and individuals
    
    Building on the success of the ‘Endowment Match Challenge’, the government should continue a match-fund programme to encourage local giving via community focussed foundations.
  - Make the Small donations Scheme more accessible to small charities
    
    Simplifying this scheme by opening it up to all charities which are registered for Gift Aid would reduce red tape and support more charities. Government should also abolish the matching requirement, which unfairly disadvantages smaller charities.

**The role of the Government**

- **What should be the role of local Government?**

Evidence indicates that the majority voluntary organisations are local in terms of their scale and area of operation. For those local organisations that have a direct relationship with the state, other than HMRC or the Charity Commission, this is likely to be a local government body. The last two decades would suggest that the nature of this relationship varies

\textsuperscript{366} See Social Impact Bonds: Opportunities and Challenges for Social Innovation

\textsuperscript{367} See Social Impact Bond pilot at HMP Peterborough: final report

\textsuperscript{368} See NAO report - Outcome-based payment schemes: government’s use of payment by results
somewhat: at times supportive and based on partnership to achieve common goals, at others distant or antagonistic, with voluntary organisations seen as ‘usual suspects’, illegitimate players in the democratic space.

Local government has for a number of decades funded local charities, and frequently local infrastructure bodies for the sector and volunteering. The sector receives more of its statutory income from local government than any other source: £7.4bn in 2013/14. However, the nature of the funding has shifted. First, a move away from grants to fewer, larger and more generic contracts, mostly for the delivery of services such as adult social care, which are excluding smaller, more specialist charities; and secondly a reduction in community budgets overall, in some cases ending grant funding programmes, in other cases ‘insourcing’ services that had been provided by charities. There is also evidence that local government support for local infrastructure, whether for volunteering or voluntary organisations, is on the wane, with closures in a number of areas. This will have a long term impact on the capacity of the sector to shape public services and collaborate with local authorities.

**Recommendations**

In an era where local government itself is under substantial financial pressure, a starting point is to work with local charities to ensure that good quality advice and support is available locally for citizens who want to start or grow charities and community groups, or get involved as volunteers and trustees. If communities are to be involved in the services that they use, which we believe they must if the twin pressures of reduced budgets and rising demand are to be met, then good quality advice and support is necessary.

Secondly, the role of local government should be to work with charities and community groups in partnership to identify local community needs and find sustainable solutions for government and the sector. Practically, this means moving beyond transactional relationships simply based on procurement exercises, instead involving the sector in strategic planning and bringing comparative strengths and assets to the table. For local government, this might be sharing community assets such as buildings or by helping organisations to access other networks and resources, whether skills, money or time.

Finally, it must the role of local government to acknowledge and support the role of charities and community groups as legitimate participants in local democracy, where the latter are accepted as having a role in representing communities alongside elected officials, and where they play a role in holding local institutions to account.

**What should be the role of the Charity Commission?**

NCVO has always argued that the primary role of the Charity Commission is that of the regulator of charities. As such, the Commission should focus on its statutory duties of:
- Maintaining the register of charities accurately, in order to promote the accountability of charities to donors, beneficiaries and the general public.
- Ensuring and promoting compliance by charity trustees with their legal obligations.
- Taking action in any case of misuse of charity or charity funds for unlawful or improper purposes.

In carrying out this role, a key issue is the independence of the Charity Commission. As the regulator of a sector that is required by law to be outside of party politics, it is vital for the Commission itself to be independent from both government and party politics. This is necessary for its effective functioning, and for its credibility in the eyes of the general public and the charities it regulates. A charity regulator that is perceived to be political risks undermining perceptions of charities more generally.

• Recommendations

The Charity Commission should continue its focus on the regulation of charities. However, in carrying out this role, it should consider a model of ‘enabling regulation’ as opposed to what is currently perceived to be ‘enforcement led regulation’. This would be based on the recognition that the best way to ensure the regulated community understands and fulfils its obligations is to provide appropriate guidance and tools. Enforcement of course remains important when deliberate abuse occurs, but our view is that a better balance can be achieved to ensure the sector is regulated effectively.

NCVO has argued that the governance of the Charity Commission is a key factor in determining its independence, and we have recommended that the current appointment process should be improved in way that distances the role of chair of the Charity Commission from executive control, by giving Parliament a greater role.\textsuperscript{369} This could be achieved in a number of ways:

- Giving formal control to the House of Commons, along the pattern provided by arrangements for the appointment of the Comptroller and Auditor General of the NAO.
- Giving responsibility to a joint parliamentary committee, comprising representatives of both houses, and chaired by a cross bencher.
- Granting Parliament with an effective power of veto.
- Making the appointment a single non-renewable term.
- Requiring the relevant committee to reach a unanimous decision.

• How should Government (national or local) focus on its resource to deliver its civil society agenda?

It is for civil society organisations and relevant government departments to negotiate and agree how best to resource and progress their respective agendas. There are however already existing common principles on which the relationship between Government and the sector should be based and work in practice set out in the Compact.

The Compact provides a framework which helps guide the relationship between Government and the sector at every level. It recognises that Government and the sector fulfil complementary roles in the development of public policy and the delivery services, and that Government has a role in not only providing legitimacy to civil society, but also in respecting its independence in all areas of society.

- **What is the likely impact of greater local devolution on the charitable sector, or particular types of charity? What are the opportunities and challenges associated with local devolution?**

Many charities, particularly small, local organisations, develop directly in response to local need. They are staffed and draw volunteers from the communities they serve, taking a person-centred approach and harnessing local assets. Devolution provides a crucial opportunity, particularly given the twin challenges of austerity and demand, for public services as a whole to become more like this.

Such a transformation will require devolution not just from Whitehall to town halls but onwards down to communities. Voluntary organisations can act as a conduit between local leaders and citizens, advocating on behalf of communities, convening service users and shaping public services so that they more effectively and efficiently meet local needs.

It is currently too early to say whether this opportunity will be grasped but to date communities and voluntary organisations have had very little input into either the development of devolution proposals or the implementation of agreed plans.

Without proper dialogue with civil society there is a risk that devolution will see poor commissioning practices applied at a combined authority level. In particular, we are concerned that services could be further aggregated into even larger contracts that exclude all but a handful of potential voluntary sector providers.

**Recommendations**

The government, led by the Office of Civil Society, should restate and demonstrate its support for the Compact principles should restate and demonstrate its support for the Compact principles as a framework for respectful collaboration between the voluntary and statutory sectors, while recognising their separation and the independence of the voluntary sector.

Central government should only agree to devolution proposals where combined authorities can demonstrate that they have engaged with citizens and civil society to
develop them and have plans in place to continue this engagement as the devolution plan is implemented, committing to onward devolution down to communities.

9 September 2016
About NUS and students’ unions
0.1 The National Union of Students (NUS) is a confederation of more than 550 students’ unions, representing over 95 per cent of all higher education (HE) and further education (FE) unions in the UK. WE have 383 FE members, 178 HE members and two apprentice provider members. Through our member students’ unions, NUS represents the interests of more than seven million students. NUS represents students and students’ unions to ensure that education is transformative, skills and learning are accessible and every student in the UK is empowered to achieve their potential.

0.2 All higher education institutions and most further education institutions in the UK have a students’ union as defined by the Education Act 1994. Whilst most students’ unions in Higher Education are registered charities, very few in FE colleges are registered. The majority of students’ unions have become registered charities during the past decade since the passage of the Charities Act 2006. Following the Act, NUS worked with the Charity Commission to support the registration of unions with £100k+ turnover initially. However, as most FE unions are far smaller and can operate as student councils, parliaments or learner voice groups, they are not registered charities and in some cases operate more as semi-autonomous college departments, overseen by college boards under the 1994 Education Act.

0.3 NUS is recognised by the Charity Commission as the umbrella body for students’ unions. By working with and through students’ unions, together the movement has undertaken significant work over a number of years to help ensure good governance and compliance with Charity Commission requirements.

1. What is the role and purpose of charities in civic society in England and Wales?
1.1 The role and purpose of students’ unions is to promote the general interests of students, as enshrined in law by the Education Act 1994. Students’ unions form a vital part of the education landscape and are powerful agents of positive change on campuses, in communities and in wider society; transforming the lives of the students they represent, helping students to transform the campuses and communities in which they live and developing active citizens who go on to transform society.

1.2 The size of individual students’ unions and the scope of their activities varies significantly, dependent on the level of funding they receive and the nature of the institution but, broadly, they provide:

- academic support and advice
- representation for students
- welfare advice and support
- sports clubs, societies and social activities.

1.3 Shaping the lives, health and happiness of students
Students’ unions are representatives of students throughout their institution’s decision making structures and are major employers of students in their buildings and through their activities, helping them gain key employment experience. They support the welfare of students through comprehensive advice and guidance; provide a wide range of cultural, developmental and social opportunities; and play a vital role in providing independent expert advice and advocacy to students in institutional hearings.

1.4 Whether it is through their work changing the social norms around drinking on our campuses through their work on alcohol impact; or leading the debate on sustainability and lad culture; or in providing life-changing experiences for hundreds of thousands of students through their clubs and societies; or in driving up educational quality through supporting systems such as course reps and innovative practice in student engagement: students’ unions are widely recognised as a positive and powerful influence on higher education.

1.5 In 2015 Teesside University Students’ Union, in collaboration with NUS, conducted the Students’ Union (SU) Survey. 94 HE Students’ Unions responded reporting:

- 179,500 visits to advice services, which handled 89,900 cases (an average of nearly 1,000 in each institution) during the 2013/14 academic year.
- 188,400 students playing sport and 355,600 students in societies and non-sporting groups.
- Support provided to 42,900 student representatives of the student voice at course, faculty, and school levels - an average of approximately 440 per institution.

1.6 Shaping and supporting the communities around them

Students’ unions also make a huge contribution to the communities in which they are situated and to wider society, helping to build cohesive, inclusive and supportive environments and creating socially responsible citizens who continue to participate in civic life beyond graduation.

1.7 Every year, students’ unions raise millions of pounds of funding for charities through their RAG week activities. The majority of this money goes to support the work of local community groups. In addition, students’ unions enable hundreds of thousands of students to undertake volunteering activities every year, benefitting local communities, as well as encouraging individuals to develop volunteering as a lifelong behaviour.

1.8 As an example of the contribution made through students’ union-organised volunteering: 3,500 students from the University of Manchester Students’ Union take part in community volunteering activities every year and in 2015/16 1,020 students from University of Birmingham Guild of Students actively volunteered and contributed to the local community. Those students’ unions who responded to the 2015 SU survey supported over 4,300 community projects involving 37,800 students in total.

1.9 Shaping a fairer, more sustainable society

Through enabling participation in co-curricular activities and engaging students in decision making students’ unions play a crucial role in developing active citizens and preparing individuals for future leadership roles. For example, together with the government, the NUS and students’ unions rolled out the influential student voter registration programmes for
General Election 2015 and SUs continue to work to encourage and support voter registration among their student populations. Many of yesterday’s (and today’s) leaders developed in students’ unions – perhaps precisely because they were able to drive change in the world around them while they studied.

1.10 Challenges
As demonstrated above, students’ unions play a considerable role in communities – contributing to community cohesion, delivering community work and raising funds for community projects. One challenge to this role however is the persistent negative perceptions of students’ unions, our services and membership – traditional conceptions of heavy-drinking students causing havoc in local communities can be difficult to overcome. It can be hard to convey messages about the positive impacts in ways that stick.

1.11 Charities can deliver a wide range of social impacts, which are felt by everyone in society, including individual beneficiaries. It is important that the role of charities, including students’ unions, is valued by society and to this is demonstrating and communicating impact. As a movement we are developing ways to measure and express the impact of students’ unions more effectively.

2. What are the main pressures faced by charities currently, and what impact have these had?
2.1 Financial pressures and opportunities
The charity sector as a whole has faced significant financial pressures during the last decade however, due to their different funding model, students’ unions overall have largely escaped these pressures so far. Most students’ unions rely significantly on block grants from their institution for their funding and this has remained a reliable source of income in a time when other charitable income sources have been stretched. Many students’ unions also run substantial commercial activities such as catering, merchandise sales and events, which provide them with an independent source of income.

2.2 This funding model removes the need to rely on traditional forms of charity funding - grants and donations but it does pose challenges of its own. One key challenge is that the funding is provided by the institution, which is also the body that unions have to hold to account.
Despite having escaped some of the worst financial pressures so far radical changes to the education landscape are beginning to change this picture. The merger of many further education providers through the ongoing Area Review process in England and the introduction of reforms to higher education through the recent government white paper and the Higher Education and Research Bill are creating a more marketised, competitive sector and a more unstable environment for institutions. In addition, the reduction in traditional public sector services and cuts to voluntary sector funding more widely have pushed more students onto union run services e.g. advice centres. This will place pressure on students’ unions’ funding and pose challenges for delivery of services to a changing and expanding student body.

2.3 Furthermore, as noted above students’ unions come in all shapes and sizes. There is a significant difference between the funding, size and capacity of unions in further education
compared with unions in higher education. The main challenge facing FE students’ unions at the moment is the Area Review process, which has the potential to weaken students’ unions throughout the country. Many FE institutions are already cutting students’ union services, which is highly concerning.

2.4 Following the lifting of caps on student numbers, increasing expansion of transnational education and a focus on recruiting more international students, the size and demographics of the student body have changed significantly. Students’ unions now have to find ways to represent and provide services for a greater number of students, some of whom may not even live in the country, with limited resources to do so and the continued pressure to deliver an excellent, personalised service for all.

2.5 Finally, changes in student spending since the early 2000s mean that students’ unions have to adapt their commercial models to reflect and cater to changing needs and habits. For example, while in the 1990s and early 2000s students’ unions could rely much more heavily on income from alcohol sales, student spending in this area has declined significantly in the years since.

2.6 An ever changing membership and officer team
The fast-paced nature of students’ unions and the regular turnover in membership lead to operational challenges. Officers change every year and so institutional memory, continuity of knowledge and skills and long term contacts are difficult to maintain. Students’ unions’ membership is also transient, often staying in a local community for only a couple of years, so relationships have to constantly be rebuilt.

3. How do charities seek to innovate, particularly in the digital arena?

3.1 Students’ unions are particularly innovative in the areas of youth leadership and democratic practices.

3.2 Students’ unions have been driving the development of strong and participatory democratic processes in students’ unions for a number of years and have followed closely Electoral Reform Society principles and expertise around ATV systems in doing so.

3.3 Modern democratic processes in many students’ unions are not simply focussed on the election of student leaders; they provide multiple mechanisms for students to contribute to the development of their union and have a say in how it is run, making use of social media and digital democratic techniques in doing so. Participative democracy instils a sense of citizenship and the recent increases in the number of students voting in general and local elections is partly attributable to improvements in student democracy.

3.4 Many students’ unions are seeking to become ever more innovative in their development of best practice in democracy. NUS has partnered with students’ unions to undertake more than twenty democracy reviews, creating a number of trailblazer unions who are now making use of innovative forms of inclusive democracy. Our reviews have shown us that the movement is committed to continuous review and have usually resulted
in additional methods for students to feed into the decision making processes of the students’ union.

3.5 Students’ unions lead the way in their commitment to and their delivery of youth engagement and leadership. For instance, they are particularly successful in developing and supporting young trustees. The boards of students’ unions contain significant representation of young people and students’ unions have been effective in managing their meaningful involvement, something that the wider charity sector could learn from. This has important implications for the wider sector, as the skills that students gain from their involvement as trustees of students’ unions could be harnessed for the benefit of other charities.

3.6 Digital innovation
The students’ union movement has invested significantly since 2011 in a robust national digital infrastructure and in producing a flexible range of digital engagement solutions. NUS’ UnionCloud is now delivering essential digital services for many members, with a current user base of 53 Students’ Unions and reach of over 765,000 students. Among other functions, UnionCloud enables students’ unions to deliver e-commerce activities and total e-commerce transactions are growing exponentially year-on-year, processing over £4.4m on behalf of members in last 12 months. Each year, NUS hosts a Digital Summit for 110 delegates to encourage thought leadership and sharing good practice across digital technologies.

3.7 However, students’ unions face barriers to pursuing wide-scale innovation in the digital arena due to limited resources for investment in this area and a lack of the necessary skills and experience among staff. There is set amount of students’ union funding that becomes business as usual, so sometimes harder to free up funds to invest in innovation. Resourcing – both in terms of financial support for equipment and staff training and the time to develop new techniques and projects – is limited.

4. What skills are required to lead and manage a charity?
4.1 Students’ unions, as with any other organisation, require a balance of both leadership and management in order to fulfil their role most effectively. They are different in relation to other charities in that they have a dual leadership structure – the elected student leadership and the appointed staff leadership. This structure is part of what makes students’ unions dynamic, creative, transformative institutions but it also creates some operational challenges.

4.2 Skills needed
Excellent leadership of a students’ union requires vision, passion and an ambition to create positive change. Strategic planning skills and experience are also crucial in order to ensure the ability to predict and adapt to a changing environment and changes in the demands of the membership.

4.3 Effective management of a students’ union requires professional management skills, excellent financial acumen, a thorough understanding of the membership and its needs,
combined with experience of the sector. The quality of management within the students’ union sector is high, with many CEOs possessing high level management qualifications including MBAs. However, two areas in need of development are the career paths through students’ unions (as these are currently unclear) and support for developing the competencies of staff at all levels. NUS is currently developing a Learning Academy to provide a continuous programme of personal and professional development for staff and officers that is both on and offline.

**4.4 Support to develop these skills**

Students’ unions make use of a well-renowned and comprehensive learning and development programme provided by NUS and developed in partnership with external experts such as Vanilla Consulting and the CASS Centre for Charity Effectiveness. It is designed for student and staff leaders of students’ unions to ensure they are equipped with the professional skills and competencies required to lead significant organisations.

4.5 NUS equips student leaders with the additional knowledge, skills and leadership competencies they need through our flagship ‘Lead and Change’ summer residential programme, which kick starts our year round development programme and includes online learning, webinars, face-to-face taught sessions as well as intensive residential courses. Last year 500 student leaders completed this programme.

4.6 As a movement, we are committed to the belief that diverse leadership creates a more accountable and effective leadership and NUS runs programmes specifically designed to develop and support equality and diversity. We run an ‘Aspiring Women Leaders’ programme in conjunction with Aspire and a Black Leaders programme as well as organising an annual Women in Leadership Conference which attracts 300 delegates to each event. Additionally NUS runs the ‘I Will Lead’ coaching and mentoring scheme which is open to anyone who self-defines as a Woman, Black, Disabled or LGBTQ+ student and matches them to people who are successful leaders and gives them access to free coaching and mentoring to help them to develop their potential.

**5. What role should trustees play in the performance and effectiveness of a charity?**

5.1 The role of a trustee within a students’ union is similar to that of a trustee within any other charity, with the exception that they are required to support and work alongside the elected leadership of the students’ union as well as provide oversight and strategic guidance for the work of appointed staff.

5.2 NUS provides support and guidance to students’ unions on the recruitment, training and development of trustees. In our Quality Students’ Union framework (outlined in more detail under question six) we clearly set out the role of trustees within a students’ union as follows:

5.7.4 In order to alleviate the potential conflicts between members’ interests, performance, and compliance which may arise at X Students’ Union as a democratic charity, it is essential that all elected and appointed trustees receive a comprehensive induction and
on-going training so that the Trustee Board can achieve in practice the key principles of governance, namely:

A: Trustee Board Leadership – the trustees must accept ultimate responsibility for directing the affairs of the organisation, focusing on the strategic direction rather than day to day operational issues, and ensuring it is solvent, well-run, and delivering the outcomes for which it is set up.

B: Trustee Board in Control – it is collectively responsible and accountable for ensuring the organisation is performing well and compliant with its obligations; it should regularly review key risks to the organisation and its performance monitoring, act prudently to protect the organisation’s assets, and apply the principles of equality and diversity.

C: Trustee Board High Performance – the trustees should ensure that they receive the induction, training and support needed to discharge their duties; they should ensure the advice and information they receive throughout their tenure is of a quality to make good decisions; they should clearly understand their responsibilities and organise the work of the Board to ensure its effectiveness; and make proper arrangements for the supervision, scrutiny, support, appraisal, and remuneration of its senior staff member.

D: Trustee Board Review and Renewal – the Board should regularly review and assess its own performance, that of all individual Trustees, and of sub-committees; it should have a strategy for its renewal and diversity; and should periodically carry out strategic reviews of all key aspects of the organisation’s work, using the results to inform positive change.

E: Trustee Board Delegation – the Board should set out the functions of sub-committees, officers, chief executive, other staff and agents in clear and sufficient delegated authorities with clear budgetary limits, and regularly monitor their performance.

(Quality Students’ Unions: http://qualitystudentsunions.org.uk/)

5.3 Students’ unions also operate within a good governance code of practice, developed with support from the Higher Education Funding Council for England and Universities UK. This is applicable to all students’ unions, follows Charity Commission requirements closely; establishes seven key principles of good governance and provides the mechanisms for students’ unions to assess themselves against those principles.

5.4 Students’ unions have increasingly strong trustee boards that contain a healthy mixture of experience and involve beneficiaries, student leaders and external members. Sabbatical officers of students’ unions who are elected through a union’s democratic structures will become members of the trustee board. Our last survey in 2013 indicated the breakdown of the average make-up of students’ union trustee boards as follows: 45% student leaders, 25% beneficiaries and 30% external. As described in our response to question three, students’ unions can provide useful examples and lessons for the wider charity sector on the engagement and meaningful involvement of young trustees.
5.5 Nevertheless, there are some specific challenges that face trustee boards within students’ unions. Due to the transient nature of students on the board there is a relatively high turnover of trustees. We embrace this as an opportunity for fresh ideas and student leadership and we manage the risks by ensuring high quality, rapid induction and making sure external trustees contribute a greater level of continuity. There is an opportunity here to make greater use of external trustees as mentors for student board members. This can be particularly useful since students’ union CEOs are in the unusual position of being managed by the student officers while also playing a mentoring role for them.

5.6 As for many charities it can be difficult to recruit trustees with particular forms of professional experience, particularly legal and financial experience. There is an additional challenge for students’ unions in that there is often a gap between external trustees’ perception of the role and nature of a students’ union and the reality. External trustees bring vital and valuable skills and experience but have to be carefully recruited and developed so that they fully understand what a students’ union board will be like. To aid this we have built relationships with executive recruitment companies including Peridot, Morgan Hunt and Proventure who support students’ unions in doing this, and groups of students’ unions recruit external trustees collectively through the following portal: http://www.nowgivesomethingback.com/.

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

6.1 The accountability structures governing the work of students’ unions are particularly strong. They are accountable to the Charity Commission; to their institution, and to their members and beneficiaries -the students. Students’ unions and NUS are not complacent when it comes to ensuring transparency and accountability. We believe there are a number of key areas where, potentially by working in partnership with other sector agencies and funding bodies, we can undertake work to further improve the transparency and accountability of students’ unions and those are outlined below.

6.2 The activities of students’ unions are regulated by law. Relevant statutes include:

- Charities Act 2011 (in England and Wales)
- Charities and Trustee Investment (Scotland) Act 2005 (in Scotland)
- Charities Act (Northern Ireland) 2008 (in Northern Ireland)
- Education (No. 2) Act 1986 (relevant sections apply across the whole of the UK)
- Education Act 1994 (in England, Wales and Scotland)
- Representation of the People Act 1983 (across the whole of the UK)
- Political Parties, Elections and Referendums Act 2000 (across the whole of the UK)
- Transparency of Lobbying, Non-party Campaigning and Trade Union Administration Act 2014 (across the whole of the UK)

6.3 Some of these laws give powers to regulate the activities of students’ unions to particular bodies, for example:

- The governing bodies of colleges and universities
• The Charity Commission (in England and Wales), the Office of the Scottish Charity Regulator (in Scotland) and the Charity Commission for Northern Ireland (in Northern Ireland)
• The Electoral Commission

6.4 Accountability to the Charity Commission
As registered charities students’ unions can only commit resources in pursuit of their charitable objectives. In England and Wales they are accountable to the Charity Commission and required to file an annual return and set of accounts. In addition to holding charitable status some students’ unions hold company status and are thereby required to comply with Companies House regulations. Like any other charity unions comply with specific financial reporting commitments from the Charity Commission through the Charities SORP.

6.5 A large number of students’ unions make use of model governing documents that have been developed by NUS for its affiliate members, alongside legal guidance produced by BWB LLP,. This helps to ensure that students’ unions possess robust governing documents that are fit-for-purpose, contain appropriate educational objects and have the usual provisions required for charities. These have been considered by the Charity Commission and, where appropriate, given approval for use by SUs when registering with them.

6.6 Accountability to education institutions
Under the provisions of the Education Act 1994, students’ unions are accountable to their institutions. Many have clear Memorandum of Understandings and Service Level Agreements with their institution that set out clearly what the relevant reporting requirements are. Students’ unions meet regularly with their institutions in order to report on progress against targets and financial performance. A strong, positive dialogue with the institution at an operational level is important and students’ union staff have a key role in maintaining that.

6.7 Students’ unions are a professional reflective community and often ask NUS to help them develop, for example we have helped them to undertake in excess of 40 governance-related reviews in the last three years. The associated learning is available for other unions through webinars, online resources and our trustee training module. Feedback shows that there has been increased confidence from parent institutions, leading to fewer interventions and increased freedom of resources. The reserves position of most unions has been seen to improve. Risk registers are in place and are actively monitored.

6.8 Democratic accountability
Students’ unions are accountable to their members through their democratic structures and processes. Every year, thousands of students take part in democratic processes to elect officers who represent them and lead their students’ union. As a sector students’ unions have developed effective and innovative representational structures to ensure officers are held to account. For instance, by introducing scrutiny committees to review the performance and functioning of the union and using online democracy portals to communicate and track the progress of ideas adopted and motions passed.

6.9 Quality Students’ Unions
Central to ensuring that students’ unions are transparent and accountable is the need to develop approaches to organisational development that are contextual, fit-for-purpose, and drive up quality. Students’ unions have long recognised this need for a wide range of organisational development activity designed to increase the quality of students’ unions, and NUS has provided support for them.

6.10 Increasingly fundamental to all of this work is NUS’ Quality Students’ Unions (QSU) framework. This was developed by NUS on behalf of students’ unions, with funding and endorsement from the Higher Education Funding Council for England (HEFCE) and support from a wide range of sector partners, to assure their quality, standards and overall effectiveness. This quality mark is a single management tool that interlocks with, and complements, relevant standards and codes that already exist within the student movement.

6.11 QSU is designed to help students’ unions meet a set of minimum standards to be considered an accredited students’ union and provides a robust framework for unions to self-develop, accessing expertise in key areas and benchmarking against comparable students’ unions. Now in its second year of operation, it has over 127 students’ unions registered on the scheme and working their way through it. Increasingly, NUS and students’ unions will be using the criteria in that scheme to underpin their organisational development.

6.12 NUS’ intention is that QSU will become a way to stretch students’ unions beyond their current capacity and improve transparency and accountability. As unions progress through QSU, they are able to demonstrate publically the standard of their organisation – ‘good’, ‘very good’ or ‘excellent’. We hope this provides useful, open data for prospective students, parents and other stakeholders, including universities, who are then able to use this as a key part of their Education Act 1994 duties to safeguard the effective operation of SUs.

6.13 We believe this is an area where even more progress can and should be made. Whilst many students’ unions have registered for the scheme, and many are currently progressing to achieve verification we would like many more to make it through the scheme. We would be keen to explore what more can be done to encourage and support students’ unions through this vital process by way of endorsement and support or resources either from government or from other related sector agencies.

6.14 Data sharing
Core to ensuring the transparency and accountability of students’ unions is the level of engagement they have with their student members, both in terms of breadth and depth of engagement. If unions have high levels of engagement then the student body themselves will be in a position to ensure that transparency and accountability is maintained. We know that key to achieving this engagement is being able to contact students directly and that robust data sharing arrangements with parent providers, that enable the transfer of student details whilst rightly upholding legal principles of data protection, are required to support this. Many students’ unions have solid data sharing agreements in place with their parent institutions already, yet not all do, and this is an area for development.
6.15 We would be keen to work with relevant partners and sector agencies, such as HEFCE, to require providers to share this information and develop good practice in how that data sharing should be undertaken in an ethical and sound manner.

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

7.1 We have covered many of the financial challenges currently facing students' unions in section two and so will not repeat here those that have already been covered. Increasing instability in the education environment may lead to pressure on university block grant funding for students' union, alongside growing pressures on their services as the result of an expanding student population. Block grants are often awarded annually, on a rolling basis, which poses challenges in terms of financial planning. It can also lead to difficulties for students' unions in building up reserves funds. This is an area that is improving but there is a need to develop a more robust approach to reserves management. Additionally, some institutions have moved to awarding three-year block grants to students' unions, which can aid financial planning, but this practice is not currently widespread and is another area for development.

7.2 There is a difference in the scale of challenges to achieving financial sustainability that different students' unions face in accordance with their size and structure. Students' unions in further education are generally underfunded compared to those in higher education. Larger colleges are more able to provide a successful and financially able students' union, though it is rare to have a budget over £15,000. Many FE institutions do not have any form of sabbatical team for delivery of their functions. Many FE students' unions do not have staff and, where they do, the core role of those staff is within the college, rather than being students' union specific.

7.3 A final significant challenge for students' unions is the cost of pensions including the transition to auto-enrolment, which is a large-scale financial undertaking, and the increasing cost of pension deficit contributions.

8. What is the potential of social investment and social impact bonds?

8.1 This is an area for further discussion and consideration among the movement and so we do not have specific comments in relation to this question at present.

9. What should the role of Government be with the sector?

9.1 As mentioned above, the structure and democratic nature of students' unions makes them quite distinctive within the charity sector. Given the size and diversity of the charity sector overall understanding the complexities of each individual part of it is a difficult task. There is a clear knowledge gap in the Charity Commission about the role and activities of students' unions, as reported to us by our membership and an opportunity for the Charity Commission to develop a clearer understanding of students' unions, how our democratic processes operate and the services we offer.
9.2 It is clear that this knowledge gap also exists in some areas of government. Last year’s Higher Education Green Paper alluded to similarities between students’ unions and trade unions. They are organised very differently due to students’ unions charitable status. Unlike trade unions, students’ unions are prevented from direct political campaigning and activity and are funded by their institution because their activity fits within the educational mission of Higher Education.

9.3 More accessible guidance from the Charity Commission about the role and responsibilities of trustees, produced in a variety of media, would be very useful.

9.4 Devolution
Students’ unions will need to consider how to adapt their strategies and work with local decision makers in order to respond to devolution. A key consideration for students’ unions in devolved areas will be the extent to which young people and students are engaged in elections and involved in local decision making. There may be opportunities for students’ unions to work more closely with local decisions and play a greater role in issues of key importance for their students, such as community safety, housing, crime prevention and transport.

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?
10.1 NUS engages in collaborative projects and communication with students’ unions across the globe in order to advance the learning and development of NUS and UK students’ unions and to support that of students and students’ unions in other countries. We are partners in the European Students’ Union (ESU), the Association of College Unions International (ACUI) and the Commonwealth Students’ Association (CSA).
10.2 We believe that it would be useful to see more cross-border dialogue and collaborative working between charity sector bodies in the UK nations. Greater collaboration between organisations such as: the Charity Commission (for England and Wales), the Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator; and the National Council for Voluntary Organisations, the Scottish Council for Voluntary Organisations, Northern Ireland Council for Voluntary Action and Welsh Council for Voluntary Action would be beneficial to all and to the sectors they represent.

10.3 There may be lessons that students’ unions could learn from other sectors, such as the private sector in terms of recruitment and retention of talent as well as best practice HR processes and systems.

5 September 2016
NAVCA is the national membership organisation for local infrastructure or umbrella charities. Our members help people to set up and run successful charities and community groups. They also speak up for local charities to make sure that local communities get the support a thriving local voluntary sector can provide.

Our members form the biggest voluntary sector network in the country, giving us an unrivalled national knowledge of local voluntary action. Our membership of 200 local infrastructure organisations covers over 95% of communities in England and support over 160,000 local charities and community groups. More than just a membership network, our members are part of a movement committed to helping communities and people come together to undertake local voluntary action. This may be to improve their local area, pursue shared interests, support each other or campaign for change.

1. The purpose of charities

It is difficult and possibly unhelpful to talk about charities as a single homogenous group. Comparing a small user led charity to Cancer Research UK is as useful as comparing a corner shop to HSBC. What all charities do have in common is a mission driven not for profit ethos, something that distinguishes them from other organisations that may be doing similar work.

This distinction is increasingly blurred. The growth of charities delivering public service contracts has created disconnect between the public perception of charities and the reality. For many, the word charity conjures up ideas of volunteers, struggling with limited resources but driven by altruism to tackle injustice or unfairness. Whilst this remains at the heart of charities, to successfully deliver their mission many charities receive money from the state to deliver services at a scale that requires paid staff within professionally organised structures. This challenges public understanding of charities. Charities have possibly not been good at explaining why they operate as they do but also maybe there is an unrealistic expectation (or idealistic view) that charities can deliver all that they do without paid staff and government funding.

There is nothing intrinsically good or better about small or big charities but they are very different – and have different needs. NCVO’s 2016 Almanac identified a growing gap between small and large charities and an increasing number of super-major charities with income over £100 million. It is important to remember that the voluntary sector is predominantly made up of smaller charities and community groups, 85% of the 160,000 registered charities have income under £100,000. In addition there are up to 600,000 “below the radar” community organisations.
Volunteering is a fundamental part of the sector and volunteers are the lifeblood of charities. The term “volunteering” is used to cover a wide range of activities, some of which challenge traditional definitions. Whilst there are fundamental differences between people giving their time freely, rewarded volunteering, micro-volunteering and employee supported volunteering, all forms of voluntary action that is freely entered into should be celebrated. Volunteering, however, does not include compulsory activities because doing so fundamentally undermines the concept of volunteering as a freely chosen activity.

Challenges

- Independence: Charity independence is threatened. Legitimate charity campaigning has been attacked by MPs and the media. The fourth report of the Panel on the Independence of the Voluntary Sector[^370], established by the Baring Foundation, found in 2015 that UK charities are facing a barrage of attacks on their freedom to defend the most vulnerable people in society. Charities have a right to campaign and that often this can be the most effective way of making a difference to a charity's beneficiaries. Charities also have an important role in helping individuals raise concerns about local services.

- Increasing demand: Austerity has led to growing poverty, inequality and demand for charitable services. Nowhere is this seen more clearly than the expansion of foodbanks. This means charities are being forced to think a lot more about how they prioritise services and support. Allied to falling funding, IPPR’s ‘Too Small to Fail’ report called this a ‘double whammy’.[^371]

- Funding: The impact of austerity on charity funding is well documented (for example in the NCVO 2016 Almanac[^372]). It is also accepted that this smaller and medium sized charities are affected most. The Almanac found the biggest charities are actually increasing their income from Government. A major issue that is largely overlooked is the decline in local government support for charities. Local government funding in 2013/14 was £475m less than in 2009/10. Our members tell us that this masks a major issue affecting the funding of smaller charities and that is the reduction in local government small grants funding, traditionally a vital source of funding for small and new charities.

The Big Lottery Fund is a major funder of small charities and their Awards for All and Reaching Communities are extremely important. In 2007 the Government raided lottery revenues to help fund the Olympics and there is no justification for not paying back this money taken from the Big Lottery Fund.

- Poor commissioning: Poor commissioning makes it harder for smaller charities and there is confusion between commissioning and procurement. Too often commissioners are

[^370]: http://www.independencepanel.org.uk/
[^372]: https://data.ncvo.org.uk/a/almanac16/income-from-government/
over-ruled by risk-averse procurement officers who focus on short-term savings rather than investment in services that offer longer-term savings through greater efficiency and effectiveness. Commissioners also appear drawn to large contracts and large providers. Locality’s report ‘Saving money by doing the right thing’\textsuperscript{373} shows that this approach ultimately costs more and results in poorer outcomes. Successive governments have sought a bigger role for charities in delivering public services. However, they have focused on the delivery role of charities and largely failed to acknowledge the role charities play to help communities and people design and transform their own services.

- Public Trust: Charities rely on public trust; for volunteers, for donations, for support. Research conducted by Populus in 2016 on behalf of the Charity Commission found that public trust had fallen. In 2016, the overall level of trust and confidence in charities fell to 5.7 out of 10, down from 6.7 in 2012 and 2014. High profile fundraising scandals are largely blamed for this reduction in public trust but attacks by politicians and the changing nature of charities are also factors. Whether this trust can be regained is up for debate but signs are that this fall in trust affects larger charities more than local.

- Reduction in support: Austerity is also leading to a reduction in support for people wanting to set up charities or those already running them. This issue is addressed below.

2. **Pressures and opportunities**

The main pressures faced by charities are the same as the challenges listed above; independence, increasing demand, funding, commissioning, public trust and a reduction in support.

Austerity has hit local infrastructure particularly hard and this has resulted in a reduction in support for people running charities. Traditionally local government has been a major source of funding but as mentioned above local government funding for charities has declined. Compounding the issue is the growing trend of government, regulators and funders to use infrastructure services without paying. They do this to save themselves money or to cut their own bureaucracy but every penny of local infrastructure resource they use is a penny less that can be spent supporting smaller charities and community groups. Examples are the Government’s reliance on volunteering infrastructure to support their three days volunteering leave pledge or the Big Lottery Fund using local infrastructure to ensure they get quality applications from a representative spread of organisations.

Challenges for local infrastructure and potential solutions are set out in Change for Good\textsuperscript{374}, the 2015 report of the Independent Commission on the future of Local Infrastructure. This commission spent nine months interviewing local groups, talking to experts, holding focus

\textsuperscript{374} https://www.navca.org.uk/assets/000/000/063/Change_for_Good_36_pp_final_aw_original.pdf
groups and examined 250,000 words of evidence and made 19 recommendations. They said;

“Our research shows that infrastructure will be needed in some form as long as people come together to form voluntary organisations and community groups. The infrastructure of the future is likely to be a much leaner enabler, broker and catalyst, rather than necessarily a deliverer. New groups and existing ones will still need advice on legal forms, governance, compliance, fundraising and income generation, financial and organisational management and demonstrating their value. Many users of infrastructure operate on little or no income and are unlikely to be able to pay for it. They will also continue to look to infrastructure for information, advocacy and advice, for which it is very difficult to charge.”

Supporting implementation of the recommendations of the Commission is the best way to improve the support people can get to set up and run successful charities.

3. **Innovation**

Innovation is an over-used term. There is plenty of innovation but not enough done to promote that which works. Much more could be achieved by supporting the spread of existing innovation. Politicians’ fixation with ever-more innovation can be at the cost of supporting traditional but successful methods of working. The House of Lords can surely appreciate that the old ways are sometimes the best. There is also pressure to present work as extraordinary and innovative. This makes it daunting to replicate. There should be more encouragement and celebration of work that may seem regular or ordinary but changes people lives.

Commissioning plays a major role in fostering innovation. The fashion for using winner takes all competitive bids, where price is everything stifles innovation. It also reduces service quality and fails to provide real value for money. Charities are not encouraged to anything outside the contract specifics and it creates a reluctance to share information as other charities are competitors.

NAVCA has consistently supported the use of grant funding. The arguments are well-rehearsed but the Granst4Good website\(^{375}\) puts why grants support innovation succinctly; “Whereas contracts dictate how a service is to be delivered and are increasingly awarded on a payment by results basis, grants are flexible and give charities the space to explore new ideas to find the best solutions for their beneficiaries and, importantly, without fear of losing income.”

Another approach that fosters innovation is the ‘micro-commissioning’ model, most notably used in social prescribing. This involves a lead provider managing a contract with a set of

\(^{375}\) https://www.dsc.org.uk/grants-for-good-2/
outcomes but having flexibility to use a range of organisations to provide a web of support for local people and communities. Within a single contract it can be possible to sub-contract using both grants and contracts. It helps organisations that are too small or too specialist to bid on their own for contracts to be involved. Rather than just getting generic services, it helps people get the services they want and encourages innovation. This approach can also result in other desirable outcomes; a more person-centred approach that can shift spending from cure to prevention, an increase in the use of grants, the possibility of involving smaller organisations in social investment, a greater involvement for specialist organisations (e.g. BME or women’s groups) and allows commissioning bodies to involve local people at the earliest point and right through the commissioning process.

There are a number of examples of this approach working including the celebrated social prescribing work in Rotherham, a range of work led by One Hackney & City, Dudley All Together Better and the programmes supported by Big Lottery Fund’s £500 million Fulfilling Lives fund.

4. Governance and leadership

We were involved in the work that Dame Mary Marsh led on developing and supporting leadership within the sector. Disappointingly little within the 2013 report resulting from this work has been acted upon. Rather than start afresh we would point the committee to this report376.

Voluntary and honorary trusteeship makes the charity sector distinct. Trustees must be voluntary, but not amateur, as this protects the independence and distinctiveness of charities. Paying trustees would undermine public support for charities.

5. Accountability

NAVCA supports of moves to increase meaningful transparency and favours the Charity Commission having the tools it needs to regulate, provided they are proportionate to the issue in hand.

6. Resource management

The issues of major concern to NAVCA are covered elsewhere in this response.

7. Social investment

Social investment is part of the funding mix a healthy voluntary sector needs. There is a range of support for larger organisations to access social investment but little for smaller charities. We are working with Access, the Foundation for Social Investment, to help get organisations ready for social investment.

We are concerned that some politicians see social investment as a ‘magic money tree’ and fail to understand that ultimately loans need to be paid off. Realistically this will often be through public purse in one form or another. Research confirms the role for social investment but the Alternative Commission on Social Investment has helpfully suggested it would benefit from less ‘hype’.377

8. **The role of the Government**

Local government has been a vital sponsor of local social and community action but unprecedented cuts have led to a decline in support378. This could see fewer emerging or new charities, meaning less variety, and a strain on quality.

The Charity Commission should be a critical friend of charities, instead it appears that it increasingly bows to political pressure. Examples include its consultation on Charities Annual returns that wanted campaigning expenditure declared and its advice (that it had to revise) that charities were unlikely to have a remit to campaign in the EU referendum. Its priority must be to protect public trust in charities, vital to a healthy voluntary sector, and should step back from the media limelight.

Since the retreat from the Big Society agenda, the Government has failed to adequately express a vision for the voluntary sector. On becoming the new Prime Minister, Theresa May said she wanted to build a “better Britain”. NAVCA’s six point plan to help her achieve this can be the basis of a new partnership with the voluntary sector. The six points were;

- **Austerity.** George Osborne signalled that Brexit meant existing budget plans would have to be re-drawn. Austerity has hit the poorest in society hardest – it must end. The Government must create a more equal society, with an economy that creates inclusive growth.

- **Social cohesion.** A lack of honesty on both sides of the EU referendum left the country divided. The Government needs to work with the voluntary sector to build a more cohesive society where everyone is valued.

- **Devolution.** We face currently a democratic deficit. We need a new settlement that truly empowers people and communities, giving us more control over our lives. Many

378 [https://data.ncvo.org.uk/a/almanac16/income-from-government/](https://data.ncvo.org.uk/a/almanac16/income-from-government/)
charities and community groups were set up to do just that and the government needs to tap into their expertise.

- Transforming public services. Charities and community groups can help people and communities get involved in the design and delivery of their services. Government should look at what is being achieved in health with social prescribing and person centred care and see how such approaches can be replicated across all our public services to improve outcomes for people.

- Office for Civil Society. OCS needs to re-discover its purpose and be a champion for the sector across government rather than carp and criticise.

- Volunteering. Business has a responsibility to the communities it operates in. The Government must honour their manifesto promise to offer all employers in the public sector and organisations with more than 250 staff three days paid ‘volunteering’ leave and encourage businesses to build stronger links to communities.

The creation of the Office for the Third Sector (renamed the Office for Civil Society in 2010) by the Labour Government increased the role and understanding that charities play in society. The recent move of the Office for Civil Society (OCS) from the Cabinet Office to DCMS was a downgrading, making it impossible to fulfil its role of being an advocate for civil society across government. Without a vision for the voluntary sector, there is a danger that OCS merely becomes a delivery agency for the National Citizen Service and a few other less funded programmes.

Good devolution offers an opportunity to reimagine our economy, public services and democracy. It has the potential to revive local economies, use economic growth and new investment to support social justice, and give people the power to transform their public services and improve where they live. However, this potential is being undermined by the lack of involvement of people and communities within the devolution deal areas. Locality and NAVCA have produced Devolution for People and Communities which contained five key principles of devolution.

- Creating a social economy. Devolution is an opportunity for creating an economy that works for the people in it, strengthening communities and prioritising social justice.

- Representation of the voluntary and community sector within new leadership structures. Devolved structures should give local people a strong voice through their voluntary and community groups.

- Ensuring accountability through effective community engagement. Strong and identifiable accountability to ensure power structures are responsive to the needs of communities.

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379 https://www.navca.org.uk/assets/000/000/121/Devolution_key_principles_FINAL_original.pdf
• Decisions taken at the most local level appropriate. Decision making and spending powers should be at the most appropriate local level, with devolved rights and responsibilities on managing budgets.

• Working with local organisations to transform public services. Devolution is a key opportunity for public service innovation through local commissioning and delivery. Devolution has largely been viewed around the devolution deals but it is equally important to encourage policies that transfer power to people and communities through transforming public services. Examples of policies that can achieve this are community rights, Personal Health Budgets and Sustainability and Transformation Plans.

5 September 2016
National Village and Community Halls Network — Written evidence (CHA0086)

This evidence is submitted by Action with Communities in Rural England (ACRE) on behalf of the National Village and Community Halls Network, formerly the National Village Hall Forum. Further information about their role can be found [here](#). This Call for Evidence is a summary of the numerous detailed emails received from members of the NVCH Network. These can be made available to provide further information and background should they be required.

ACRE has submitted written evidence under separate cover.

Call for Evidence - Select Committee on Charities

1. **What is the role and purpose of village hall charities in civic society in England and Wales? How has this changed?**

The unique network of community-owned and managed village halls is part of England’s rural heritage and fulfils the need of those communities by providing a social centre from where activities and services for all ages can be delivered.

Village hall charities traditionally provided a low cost facility for local groups, other charities and individuals to meet and run a range of activities for the community and local residents. The local Church, School, shop and Public House provided spaces for worship, education, daily shopping needs and social activity. Village hall charities have had to adapt to meet the changing needs of rural communities as these meeting spaces close. There is a greater expectation that village hall charities are able to use their facilities to fill gaps, this has taken place with varying levels of success.

Village hall charities are now registering as Charitable Incorporated Organisations (CIOs) so that they have the advantage of limited liability rather than personal liability under the traditional trust model.

**What makes them distinct from other organisations doing similar work?**

Village halls have always been owned and managed by their community for the community as opposed to halls and community centres in urban areas that are vested in local authorities. They are run by volunteer trustees who are responsible for all the fundraising and day to day management of their hall. Their impact on the rural communities in which they are situated whether economic, social or environmental is demonstrated in ACRE research[^380]. For instance they use local tradesman, provide space for local people running small enterprises, a place to meet with the community or to hold family celebrations and many have been forerunners installing renewable energy technology providing demonstration projects for the community.

The primary purpose of a village hall charity is to create community cohesion and civic action as the standard charitable objectives demonstrate:

“The Property and the trust fund and its income shall be applied for the purposes of a village hall for the use of the inhabitants of the Parish of…..without distinction of sex, sexual orientation, age, disability, nationality, race or political, religious or other opinions, including use of the Property for meetings, lectures and classes or other forms of recreation and leisure time occupation in the interests of social welfare and with the object of improving the conditions of life for the said inhabitants”

How does the sector benefit from volunteers managing buildings?

Volunteers contribute an average of 18.5 hours per week to run their village hall. There are circa 10,000 village halls across rural England. The management committees volunteer as they have an interest in providing and maintaining their building for the community, but they are generally undervalued.

What challenges do charities face in trying to fulfil their role in civic society?

Village hall charity volunteers need to ensure that their building complies with the same legislation as any workplace, shop or other public building and they have the same liabilities. Volunteers have to fund raise for management and maintenance and ensure they comply with all reporting requirements.

2. Pressures and opportunities

The key pressures faced by village hall charities:

- Recruiting volunteers (leading more frequently to some halls being handed to the PC). On average the youngest member of a management committee is 42 and the oldest 73. We are informed that 59% have problems recruiting volunteers as people are not interested, too busy or too old. A complaint of hall trustees is that people want to use the hall but they don’t want to run it.
- Increasing expectations on service delivery rather than building/facilities management.
- Time needed for raising finance and the lack of availability of grant funding for capital works.
- Population demographic – people are working longer and have less time for volunteering.
- Emphasis on performance and effectiveness and accountability is off putting and detracts from the reasons that village hall trustee’s volunteer.
- Lack of computer literacy in a digital age where reporting online is required. Many village hall trustees are of a generation that are not familiar with IT and rely on support from younger family members or ACRE Network members to submit returns.
Demoralising impact of the burden of irrecoverable VAT. Village halls are not registered for VAT, so extension and refurbishment projects mean an extra 20% has to be found through fundraising and grants. Research showed that in England an average of £7m was lost in irrecoverable VAT.

How can these pressures be overcome?

- Adequately financed support from trusted providers which could be provided with a mix of national, county and local level funds. The innovative funding model used by the recent Big Lottery Village SOS programme has been successful in supporting village hall charities. Research is needed to understand how both models referred to could work either separately or together.
- Recognition by Government of the value of a range of financial for a sustainable village hall; that what is appropriate and achievable in one community may not be possible or sustainable in another.
- Reconsideration of the irrecoverable VAT situation for village halls and introduction of a VAT refund Scheme.
- Charities working together to raise the profile of benefits of volunteering to support building management and to develop the skills of the volunteers managing those buildings.

Opportunities

There have always been opportunities for the development of village hall charities to become active hubs at the heart of their communities providing a few, or many, bespoke services. These can support not only the bricks and mortar of the building but maintain the essence of the traditional village hall. However, appropriate local County level support (both professional and peer support) must be made available to give communities confidence that it can be done, change the constitutional models where necessary and upskill village hall trustees.

3. Innovation - how do charities seek to innovate, particularly in the digital arena?

What more could be done to promote innovation, and by whom?

For innovation to be possible local County level support is needed for village hall charities to consider their options and long term viability.

Village hall charities are becoming more aware of the opportunities of a) having a connection to broadband in their hall and b) using social media for raising awareness of their charity both within and outside their communities.

What barriers are there to being innovative?

- Reluctance and age demographic (we’ve always done it this way)
• Access - some halls provide a broadband connection for hirers of the hall and in some cases host a wifi connection for the whole community. Rural broadband connections don’t yet reach into all rural communities.
• Cost of broadband connection - Unfortunately tariffs vary widely from provider to provider and village halls are either charged a business or domestic rate. We would welcome a rate for charities. There are initiatives in some Counties and ACRE was pleased to learn that Gigaclear are connecting village halls for free in some rural communities and providing a zero tariff for one year.
• Lack of computer literacy in a digital age where this is becoming vital even for everyday life. Many village hall trustees are of a generation that are not familiar with IT and rely on support from younger family members or ACRE Network members to submit returns and reports.

8. Social investment

What is the potential of social investment and social impact bonds?

We need to ask what social investment from a village hall perspective is.

Village hall charities usual experience of social investment is through loans either private loans from individuals within the community or through the Defra’s Rural Community Buildings Loan Fund that is managed by ACRE. This Fund allows village hall charities to borrow relatively small amounts that are manageable within their cash flow and also takes into account that they are unincorporated charities. An evaluation of the Fund will be complete by the end of September. It considers the social, environmental and economic impact of the fund and how it can be improved.

At a grass roots level fundraising activity such as the popular ‘buy a brick schemes’ allows individuals to invest in a hall project and take ownership at a financial level that suits them.

Community shops and pubs use a Community Benefit Society operating model which is required for investment in the form of a share offer. The benefit to the village hall in a share offer would be the availability of a large capital investment for new build and extension & refurbishment work. However other than the sense of ownership by those from the community investing in their village hall there would not be a financial return. CBSs don’t offer dividends and interest on share capital would be limited.

During 2015/16 the ACRE Network has worked with their honorary legal adviser, Jonathan Dawson, to produce a consultation briefing on Village Halls as Community Benefit Societies. A range of responses have been received from village halls and other national bodies, such as Plunkett, who have an interest in the CBS model. ACRE will decide how to take the work forward in the Autumn.

What are barriers to fulfilling their potential?

• Loan finance and repayable investment of a significant scale is challenging based on the trading income of village hall charities.
80% of village halls are unincorporated and held on charitable trusts in perpetuity for the community. This model is not suitable for share issue or an acceptable vehicle for taking on a large long term loan particularly given the personal liability of trustees/volunteers managing village halls.

9. **The role of the Government** - What should the role of Government be with the sector?

**What should be the role of local Government?**

Local authorities at District & County level need to acknowledge and take supportive actions in recognition of the role that village halls can and do play in rural communities.

The relationship between village hall charities and Parish Councils varies from village to village across rural England. This can depend on the constitutional role that the Parish Council holds; sometimes as the sole trustee but more often as the custodian trustee. In some cases the Parish Council has no constitutional role but it does have powers to assist. Whatever their role they are able to support the village hall charity in a number of ways and should be encouraged to do so by their national body, NALC. ACRE provides guidance for village halls on this: Information Sheet 2: Parish Council help for village halls.

Local government needs to take a lead in providing small amounts of grant funding for trusted organisations within their County where they are supporting village hall charities to deliver necessary services in remote communities.

Under austerity measures local support organisations, such as ACRE members, have lost funding from local authorities who have taken support services in house. In house support services will take many years to build the confidence of local village hall charities, who can be reluctant to contact the local Council rather than a local Charity.

**The role of national Government**

A civic society is one that should understand and represent the needs of all communities. National Government policy tends to expect one size to fit all and champions the successes of particular agendas excluding or attempting to mould those charities that do not fit the policy comfortably.

**Devolution**

The Government’s proposal to allow Local Authorities 100% of the business rates they raise has caused some concern in the sector. Village halls are eligible for 80% mandatory relief and 20% discretionary relief under the Local Government Finance Act 1988. Last available research (2009) showed ¾ of village halls received 100% relief and we suspect that has reduced and may reduce further under the new arrangements. We would like to remind Government of the value of the reliefs to village hall charities.
What should be the role of the Charity Commission?

ACRE and its Network have always worked closely with the Charity Commission. We have shared information and training as well as being involved with their staff through accreditation of quality standards. Network advisers assist halls through the charity registration process and provide support for village hall committees who need to make changes to their governing documents and more latterly have assisted the Charity Commission in tracking village hall charities that have defaulted with their accounting and reporting submissions.

Since moving to a regulatory role the Charity Commission refers callers with land and property queries to ACRE and its Network for advice, guidance and support. Therefore ACRE and its Network and other infrastructure organisations have been expected to pick up the work the Charity Commission no longer undertakes. This needs resourcing but village hall charities have low incomes and hours of fundraising are needed to raise funds to keep the building going. Paying for community development support and any necessary legal fees can be prohibitive.

ACRE and its Network have frustrations in working with the Charity Commission. The website, now part of .gov is not user friendly and it is very difficult to speak to a person without using the call back system. It is not always appropriate to send an online query.

We recommend, and have done so before, that it would be useful for the Charity Commission to provide a helpline service for infrastructure/advice bodies/solicitors so that technical questions can be asked and cases followed up on behalf of village hall charities. This service would not be available to individual charities for general enquiries.

This situation is summed up in a paragraph from Milverton Victoria Rooms Management Committee in Somerset:

“We would like to see legislators and administrators consider the implications of their policies and decisions on small volunteer-run charities such as ours. We would like to see the burden of bureaucracy reduced with the needs of small charities in mind. In our view, the Charity Commission needs to adopt a more customer-focused stance generally, coupled with a more personal, user-friendly approach when dealing with small charities seeking guidance. Small charities need a louder voice and we see the creation of the National Village and Community Halls Network as an encouraging development”

Thank you for the opportunity to respond to this Call for Evidence. We would be pleased to provide further information should it be needed.

Action with Communities in Rural England
On behalf of the National Village & Community Halls Network

5 September 2016
Questions

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

- How has this changed?
There has been a change in the position adopted by government & local government in respect of how most non-statutory, and some statutory, services are delivered. There is a move away from delivery by (local) government agencies and government funded organisations to delivery by community organisations. This is a key aspect of ‘Big Society’. Charities, especially small local charities, are no longer primarily delivering additional ‘nice to have’ services & activities. They have been moved to providing services & activities essential for people’s health & well-being e.g. support services for older people, advice services for vulnerable people, domestic abuse counselling for victims of abuse & violence, etc. as delivered by ‘New Heights’ charity in Kingstanding, Birmingham (an area ranked within the 10% most deprived nationally – Index of Multiple Deprivation 2015).

- What makes them distinct from other organisations doing similar work?
Community Charities (certainly New Heights – Warren Farm Community Project) are formed by local people responding to local needs. In 2004 when formed we fulfilled a role of ‘plugging the gap’ in services required by local residents not provided by the local authority, health or statutory agencies. Arising from austerity measures many previous community services and activities have closed e.g. Citizens Advice Bureau, Neighbourhood Offices, Youth Services, ‘Day Centre for Older People’, etc.

As a local charity we undertake formal community consultation to

- confirm what services are available to local people so that they can be advertised,
- Identify current unmet need within the community
- Consider how the community can respond to meet the needs of local residents.

Where services close due to budget constraints our charity links up with partner agencies to consider how key services might be moved into, or replicated within, our charity’s community facilities with support provided by teams of volunteers. In this way the impact on local residents is minimised wherever possible.

As a local charity our trustees are drawn from the local community, elected by members (open to local residents & agencies) at the AGM. Charity trustees offer their services free of charge, supporting delivery of services to local people largely through recruitment & support of local volunteers.

Community Charities have a relatively small group of paid staff – for example our 104 volunteers are supported by a part-time Project Manager, part-time Volunteer Coordinator, part-time admin & a part time Community Café Volunteer Manager – less than 2.0 fte staff. We do not have paid staff to undertake fundraising – this is undertaken largely by a
nominated trustee. We benefit from HR services delivered free of charge by another partner community organisation. 100% of our charity annual income is spent on delivery of support services & activities.

- What role can charities play in community cohesion and civic action?

The Aim of our community charity is:

- “To meet the needs of the most disadvantaged members of the Kingstanding community and to help to bring about social cohesion”

You will find that a primary aim of many community charities is linked to bringing about social cohesion & community integration. This is provided by delivery of community services and activities using the same community multi-functional facilities.

For example our St. John’s Hall is used to deliver a range of services including:

- Luncheon Club / Silver Surfers Club / Tai Chi class etc. for older residents
- Scout Club / Karate Club / Education Support Room for younger people
- ‘Crackers Playgroup’ two sessions weekly for children under 5 years
- Monthly & Festival ‘Community Meal’ venue for local vulnerable families & adults

In our Community Café building we provide:

- Community Café itself where local people can socialise, enjoy affordable meals & refreshments and where volunteers can develop skills & gain accredited qualifications
- Domestic Abuse Counselling Service – where victims get support to enable them to transform into ‘survivors’ of domestic abuse, gain volunteering opportunities etc.
- ‘Problems Solved’ Advice Service where volunteers provide advice & advocacy in respect of housing, employment, disability, legal (e.g. Non-Molestation Orders), income management, etc.
- Carer Support Groups for carers of people with Mental Health & Carers of Older People.

When people of different generations & backgrounds benefit from receipt of facilities & services within the same community facility, provided by volunteers drawn from across their local community, this promotes community cohesion and inter-generation integration.

Our charity is not involved in ‘Civic Action’ – other than in respect of seeking to deliver support services & activities to meet the needs of local people.

- How does the sector benefit from volunteering?
The Community Charity Sector does not simply ‘benefit from volunteering’ it is ‘dependent’ on local people volunteering their time, energy, enthusiasm, and skills to help deliver support services & activities to meet the needs of local people. Charities firmly embedded in the community engender a community spirit where local residents are encouraged to consider the way in which they can ‘give something back’.

Everyone’s skill base is different – some are best at supporting their community charity by taking on responsibility as a Trustee and using skills to move forward a particular aspect of the charity (e.g. a local person with acting & music skills has recently been elected as a Trustee using his skills to promote services through audio/visual aids). Other local people have organisational skills and are good at co-ordinating the input of others. Other volunteers are ‘doers’ who give their time to deliver activities.

Our volunteers not only deliver support to the charity & community – they also make their own personal gains e.g. new skills, social interaction leading to improved social skills, improved employability, etc. The great skill of a Project Manager and/or Volunteer Coordinator is to identify what people can offer and how they, in turn, will benefit from volunteering.

- **How has the status of volunteers changed?**

Volunteering is no longer ‘something nice to do with a bit of spare time’. Their role is now essential in delivery of community support services & activities. They have moved from supporting staff who deliver a service to one of actually delivering services themselves. Their role has moved from giving directions & making cups of tea to being the primary person who delivers services and activities. With this goes responsibility for being present and able to deliver support when required / on the rota. Along with this however goes the personal satisfaction of having delivered a service which people benefit from receiving.

- **What challenges do charities face in trying to fulfil their role in civic society?**

Identified local need is ever-present & growing - yet access to resources, particularly financial support grants to cover utility & overhead costs, is becoming more difficult to access. This is especially the case for small local charities who are unable to call on ‘professional fund-raisers’ to write multiple complex funding applications to the range of potential charity foundations, who in turn have greater call on their funding from the growing needs of local charities. On a personal level I have taken on some of this role as a charity trustee – it is hugely demanding of my time and very dispiriting when the majority of applications are unsuccessful because of the high demand for grants and not because of perceived benefits of the application.

Another significant challenge is the need to recruit growing numbers of volunteers from across the full range of local people – to replace older people who have to give up volunteering due to age/infirmity, and to meet the growing need for teams of volunteers to deliver services previously delivered by paid staff in agencies no longer funded.
Local Authorities do not re-invest any (even a percentage of) savings from the closure of local services in local community resources – instead local community groups are faced with meeting the resultant gap in service provision and will probably also have experienced the removal of previous local authority grants!!

- **How can these challenges be overcome?**

Practical support and guidance from funding providers (e.g. Lottery) to small community charities which do not paid fundraising staff (i.e. where all charity paid staff are fully involved in service delivery / management) – e.g. local lottery representative being available to charities in respect of setting out information on application forms rather than simply providing feedback when an application is turned down due to the way in which information is presented rather than a lack of evidence.

A proportion of savings from the closure of local authority services should be made available to charity foundations who can administer grant applications from local charities who deliver support services within that local authority area. This is similar to how charity foundations whose resources have diminished often commission another foundation to administer grant funding on their behalf.

Local colleges & universities should give priority to including, as a practical element of degree / NVQ qualification courses, a substantial volunteering placement as a course requirement. This will encourage volunteering and enable students to gain practical social and employment skills.

**Pressures and opportunities**

2. What are the main pressures faced by charities currently, and what impact have these had?

- **What opportunities do charities have in the current environment?**

The greatest opportunity is to enable local people to get involved in identifying the needs of their local residents, and explore ways in which the local community can respond to unmet need.

- **Are there specific pressures affecting particular types of charity** (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

Reliance on being able to identify sufficient financial resources on a year by year basis. This means that undue attention is diverted to plugging short-term funding gaps and drawn away from strategic planning. It is very difficult to manage and work towards a 3 or 5 year strategic plan when there is financial uncertainty in respect of next year’s financial position.
At present all of our part-time staff are on temporary contracts because it is extremely difficult to identify funding of staff posts (Project Manager or Volunteer Coordinator) beyond one year. We are lucky that our small staff team understand this problem and accept their contract will be reviewed and can be withdrawn every six or twelve months – it does however have a significant impact on a community charity’s ability to attract good quality staff in the first place.

Lottery funding for projects run by community charities is made available for either three, or in exceptional circumstances, five years. Once the term of funding is ending there is a need to commence a ‘new funding application’ process in the knowledge that evidence of on-going / growing need & good evidence of delivery of outcomes will not necessarily mean that service funding will continue. How can a community charity provide local residents with confidence of on-going delivery of essential services when funding commitments are always short-term? There should be a mechanism whereby an independent evaluation review of each funded project reports to the funder and trustee board during the penultimate year of each funding period (possibly every 2 or 3 years). This independent evaluation should be tasked with establishing whether there is an on-going need for the service and recommending any measures required in respect of on-going funding or role of the project. A continuation funding commitment could then be considered for a further 3 year period if the project is deemed as meeting identified Outputs & Outcomes and ‘need requirements’ are established. At present when projects are nearing the end of a funding period volunteers and staff often feel then need to look out for alternative opportunities rather than waiting for the project end date with only a ‘hope of continued funding’.

Innovation

3. How do charities seek to innovate, particularly in the digital arena?

- What more could be done to promote innovation, and by whom?

This is primarily the role of Charity Trustees, supported by their staff, who need to be encouraged and supported in recognising this as a key responsibility. Largely community charities have met this challenge without access to support due to a requirement to innovate or close!

Charities need to understand that the way in which people will know about, and inter-act with, services they deliver lies almost completely in the digital arena and social media. This is also true in respect of the recruitment of volunteers from younger members of the community. Grants should be made available to community charities to allow them to develop inter-active web information and services.

Recently New Heights Charity has undertaken Community Consultation (to clarify current availability of services & activities, identify unmet needs and understand how the community might respond to meet them) which was funded by a Lottery Awards for All grant. The original grant identified a need for a further £3,000 to enable us to establish a
web-based Local Resource Directory (with links to all relevant provider web-pages so that it is constantly updated) which in turn could be used to promote Social Prescribing by local health service staff. Unfortunately the additional element could not be funded – we have to either identify an alternative way to fund this important piece of work or wait for 3 years until we can make another Awards for All application! This difficulty would be met with the availability of funding resources for IT development within community charities.

- **What barriers are there to being innovative?**

It is difficult to be innovative when a community charity is faced with an on-going need to prioritise fund-raising at the expense of strategic planning and innovation. However, the primary remit of community charities is to identify new and innovate ways of meeting the needs of local people with diminishing resources – in this way community charities have some level of expertise. We have found that when problems are opened up for discussion within the local community it is surprising how solutions and different perspectives can be identified.

Poor IT facilities in community charities are a major hindrance to being innovative – when a charity has neither the hard-ware, soft-ware or digital expertise to develop new systems it is very difficult to move forward with innovative solutions. We have local schools and colleges who could be approached for support – a little bit of investment in IT equipment & software is needed.

**Governance and leadership**

4. **What skills are required to lead and manage a charity?**

- **How can these skills be gained?**

In 2015 New Heights Charity experienced significant difficulties in respect of turnover of trustees and the terminal illness & subsequent death of our charismatic project manager. We turned to our community and within 6 months new, experienced and motivated people were nominated and elected as replacement trustees. We identified skill shortages and local people were encouraged or volunteered to take up identified responsibilities as trustees. Specific areas of responsibility for individual trustees were identified along with general duties and this aided recruitment e.g.

- Chair / Vice-chair / Treasurer responsibilities
- HR responsibility within the charity
- Safeguarding
- IT Equipment
- IT Systems / Website
- Furniture Store
- Fund-raising & Grant Applications
- Domestic Abuse Counselling Service link
• Buildings, Maintenance, and Health & Safety
• Admin Systems

Project Management, Community Consultation and Volunteer Coordination skills with community charity staff are key skills that need to be developed and retained through access to good staff development funds and effective staff retention policies (in turn dependent on having greater confidence in funding availability for posts).

- What support exists to develop these skills within the charitable sector?

Community charities have significant experience and expertise in developing new approaches to delivery of support to meet their community needs. Skills are available within the community. It is a question of community charities having the confidence and ability to reach out and communicate its needs – it is our experience that people with the appropriate skills come forward.

5. What role should trustees play in the performance and effectiveness of a charity?

See response to section 4 above!
- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
- What, if any, changes might this mean for current arrangements?

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

- What, if any, changes might this mean for current arrangements?

• Ensure AGMs are well publicised with a clear remit to encourage local residents to attend.
• Trustees seeking election at AGMs should set out in news-letters and on the web what attributes they can offer to the community charity.
• Give local people a voice both at the AGM and via on-going community consultation in respect of what services are offered, promoted and delivered.
• Respond to all proposals.
• Ensure trustees are visible within the charity and the community.
• Ensure comments from beneficiaries are high-lighted in evaluation reports on each service.
• Establish and maintain Client Focus Groups.
Grant providers normally require progress reports on projects and on the achievement of identified outcomes. This information should be collected, submitted to Board Meetings and easily available to send to all funding donors – sending information, even if not a requirement, helps build an on-going relationship with donors.

The purpose of a charity is to serve its members – the general public, a local community or people with identified needs. Good quality information should be made available on notice boards, at local community information events and on the charity web-site (where the opportunity to make comments should be promoted).

- **How should charities assess their long term viability and/or sustainability?**

  Undertaking regular community consultation to determine if there is on-going need for services provided, and / or a need to develop new services or activities. If the community charity no longer retains the confidence of its community its long-term viability is weakened.

  Customer feedback must also be regularly reviewed to consider whether changes to the way in which services are delivered are required.

  Viability is also governed by a charity’s ability to attract funding from charitable foundations, community fund-raising activities and other funding agencies (e.g. Big Lottery).

**Resource management**

7. **What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?**

Charities being required to expand the range and level of services offered to meet increasing community needs puts an additional strain on Charity Foundations and/or the Lottery because there are growing demands on a static or reducing financial / funding resource.

Where clients have the ability to pay for required services private enterprises provide their services – leaving those with limited income dependent on support provided by community charities.

As the level and range of services delivered by community charities grow there is an increasing need to employ experienced and qualified staff to recruit, support and motivate teams of volunteers to deliver required services. With the majority of funders only agreeing to contribute to fund staff posts for one year this means that too much time is taken up in recruiting and inducting staff to replace others who move on due to a lack of job security – especially when they need mortgages & are planning families.

- **How can these challenges be overcome?**
Targeting financial support to charities to fund project management & volunteer support posts where grants are available on a rolling programme i.e. funded for 3 years at a time with a review after two years to consider rolling on the 3 year funding commitment.

- **How can best practice and information be shared across the sector?**

Within our local community we have a ‘Spirit of Kingstanding’ group – a forum where local community group and church representatives meet to share information, discuss how services can be developed, & avoid any duplication of effort/service. This group has arisen from the ‘FOURTEEN Spirit of 2012’ initiative and has helped local agencies coordinate and consider how services can be developed on an inter-agency basis.

- **What lessons can be learnt from past mergers or dissolutions of charities?**

- **How can charities effectively deliver services and be assured that their work achieves successful outcomes?**

Where community charities fail to do this they will be challenged by their local community and also fail to retain the confidence of funders and volunteers. They will soon fail if services which respond to community needs are not delivered or outcomes are not achieved.

Charity Boards will be assured that their charity is effectively delivering services & achieving outcomes through proper scrutiny of regular update / evaluation reports which should be taken as agenda items at Board Meetings.

Board members also need to be ‘visible’ to their services, staff, volunteers and customers so that they receive immediate feedback on the quality of services provided, the motivation of staff and volunteers and the impact of services in respect of customers achieving desired outcomes.

It is important to build into each project an element of independent evaluation the report on which should always be reviewed by the Charity Board and Funding Authority. The remit of independent evaluation should always include consideration of effectiveness of service delivery and achievement of outcomes.

- **What are the benefits and challenges of funding for charities being derived from commercial contracts?**

The challenge is in being able to invest sufficient time and expertise in preparation of funding application reports – especially when multiple assessment phases are involved. It is disheartening to receive feedback on funding applications where the funder accepts there is an identified need & that the case is well set out but funding ‘cannot be allocated due to the high demand for grants at this present time’. Other than expanding the level of financial resources available (e.g. by requiring local & health authorities to reinvest a percentage of savings from closure of services in a charity foundation linked to delivery of support within the authority) it is difficult to see how this issue can be resolved.
On the other hand there is significant benefits derived from charities working to a commercial contract with their funder i.e. being held to account for service out-puts & outcomes.

I would suggest consideration be given by larger funders e.g. The Big Lottery in establishing a system where ‘continuation funding of projects’ is assessed, considered and agreed 12 months prior to the agreed funding period ending i.e. linked to review of a positive independent project evaluation report presented to the Lottery and the Charity Board. This will solve the problem of experienced charity staff having to look for contracts with longer term prospects during the final year of funding and the subsequent impact on services delivered by the charity. Continuation funding should not be considered as a ‘new application’ as at present but rather a major review of the project to date, the quality of services offered, customer input and the delivery of outcomes.

**Social investment**

8. What is the potential of social investment and social impact bonds?

- What are barriers to fulfilling their potential?

**The role of the Government**

9. What should the role of Government be with the sector?

- What should be the role of local Government?

In the last 10 or more years local government has moved away from delivery of services to that of procuring services to meet their local community’s needs. There have been many benefits from this new approach with evidence of services being developed and delivered in a more responsive way to meet community needs.

However, with the impact of austerity measures, local authorities no longer have the resources to commission services other than those required by statute. There is virtually no relationship with community providers other than that of inspection (environmental health, etc.) and some input to coordination in specific areas (e.g. Community Safety Partnership).

Up to recently local elected ward counsellors had access to small local funds which could be used to develop local community services. However in recent years these too have disappeared.

- What should be the role of the Charity Commission?

The Charity Commission’s primary role is linked to the registration of charities, keeping an updated register of charities, and ensuring charities meet their regulatory requirements. Where charities meet their requirements I would anticipate the Charity Commission having
a relatively ‘light touch’ but where concerns are raised it needs to have the authority and expertise to deal with deficiencies quickly and effectively.

- Have these relationships changed? If so, how?

- How should Government (national or local) focus its resource to deliver its civil society agenda?

- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?

- What are the opportunities and challenges associated with local devolution?

Devolution must always be linked to delegation of authority along with responsibility and access to required financial resources – either by being able to raise resources or have them devolved. On too many occasions local devolution is seen as a way of saving money and/or passing on responsibility for delivery of services without appropriate devolution of authority and finance.

Devolution should be linked to developing authorities which are held to account by the community served – this is not evident with the development of a significant number of Quangos.

Lessons from other sectors and countries

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

Please also include in your submission any information you think may be relevant to our inquiry.

These comments are made solely from the standpoint of an up-paid Community Charity Trustee. I do not claim to be an expert but rather someone who is interested in seeing local charities being allowed to develop to meet the needs of their local community – the very reason the charity came into being in the first place.

Feel free to contact me if any of my comments need to be clarified.

Thank you for offering this opportunity
Kind Regards

John McGorman

Trustee, New Heights – Warren Farm Community Project

05 August 2016
Summary
The Lords Select Committee’s review of the sustainability of the charity sector is timely. Charities face a number of significant challenges—from the changing role and shape of the state and our new political environment, to broader social trends such as demographic changes, new technology, and changing public attitudes.

NPC has worked with charities and funders for nearly 15 years to help them increase the impact they have on the causes and beneficiaries they care about. We welcome the Lords Select Committee’s decision to undertake this review, which we hope will aid relationships between the voluntary sector and the government, and improve their combined ability to tackle social problems. In this response to the Select Committee’s call for evidence, we draw out lessons from our work and make the following points:

- The sector itself is hugely diverse. What matters is whether organisations are delivering for the causes and beneficiaries they exist to serve. In short: are they having an impact?
- The changing role and shape of the state has had profound implications for some charities. The impact of shifts from grants to commissioning has been compounded by ever larger contracts being commissioned out. This often locks out means smaller, more specialist organisations, with some charities struggling even to continue their existence. What we need is a commissioning approach that provides a level playing field, where competition is focused on who can deliver the greatest impact, not necessarily at the lowest cost.
- The space for civil society to speak out on important issues is narrowing. From the Lobbying Act, to the ‘gagging’ clause added to grant agreements, to the Charity Commission’s guidance on campaigning in the EU referendum, charities find themselves in an ever more hostile environment. The sector has a legitimate role in raising issues that matter to beneficiaries, and society overall loses out if this role is restricted.
- The sector faces particular challenges around public trust. Charities should be open and transparent about what has gone wrong—particularly in fundraising—and what needs to be done to fix it. There is still a danger that some organisations fall back on blaming the media rather than working with the public in order to rebuild their trust. Good charity governance is at the heart of how we put this right.
- The sector lags behind on the digital and data agenda. More needs to be done to build collaborative digital infrastructure that enables sub-sectors (such as domestic violence, housing and homelessness, and so on) to have a greater impact. The government could

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382 UK Parliament, Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014, 5 February 2014
383 Cabinet Office and The Rt Hon Matt Hancock MP ‘Government announces new clause to be inserted into grant agreements’ 6 February 2016
do more to support this agenda—in particular, by replicating the successful Ministry of Justice Data Lab model[^1] in health, employment and education to support charities in better understanding their impact.

- Charity governance needs particular attention. NPC suggests that boards should have to report on their impact and governance processes to the Charity Commission. The aim would be to drive trustees to concentrate more on the difference the charity is making, and how they can improve, rather than a narrow focus on financial sustainability at all costs. Attitudes and skills in the boardroom also need updating. The sector needs a more diverse trustee base, and new skills such as expertise in digital, if organisations are to thrive in the modern world. Furthermore, charities need to be bolder, and boards need a greater appetite for risk, if the sector is to adapt and deliver greater impact in a changing world.

The purpose of charities

What is the role and purpose of charities in civic society in England and Wales?
How has this changed?
What makes them distinct from other organisations doing similar work?
What role can charities play in community cohesion and civic action?
How does the sector benefit from volunteering?
How has the status of volunteers changed?
What challenges do charities face in trying to fulfil their role in civic society?
How can these challenges be overcome?

NPC response

There are over 160,000 registered charities in England and Wales. It is a hugely diverse sector with lots of very different organisations playing very different roles: from large brand name fundraising charities, to micro community-based civil society groups, to contract-delivering organisations that behave more like social businesses. So it could be helpful to segment the charity sector more, to aid public understanding of what the different types of organisations do, and the various challenges they face. However, these organisations, despite their differences, all share a passion for delivering their mission, and making a real difference to the beneficiaries and causes they exist to serve. The key question we should be asking of everyone in the broader social sector is: how effectively are they doing this? That is why NPC focuses on helping charities and funders understand their impact, and helps organisations to deliver more.

There have been a number of changes in the charity sector in recent years. Over the past 15 years, many charities have grown closer to the state, delivering more contracts on a larger scale. This has led to concerns about independence and whether charities have simply become organisations that deliver public services. This concern can be exaggerated, however, as there are still many more traditional charities and civil society groups active in communities. Meanwhile, those that do mainly deliver public contracts often look to ways to add value—through the use of volunteers, for example—and

recycle any profits into delivering greater impact.

More recently, the legitimate role charities have in speaking up for the causes and beneficiaries they represent has felt under threat. Charities can help advance the interests of the public, and can enable beneficiaries excluded from debates to have their voices heard. However, the space for civil society to speak out on important issues appears to be a narrowing. Recent changes—such as the Lobbying Act\(^{386}\), the Cabinet Office grants clause\(^{387}\) that forbids charities from using public money to speak out, the guidance from the Charity Commission on the EU referendum\(^{388}\), and comments from ministers such as the infamous ‘*stick to their knitting*’\(^{389}\) quote—have created an atmosphere in which many charities fear that their voice, and by extension the voice of those they exist to help, is being silenced.

For smaller, more specialist charities austerity has been challenging. Many have struggled as local authorities have shifted from grants to commissioning, and then commissioned out larger more generic contracts that have been harder to win. This is partly an inevitable consequence of size, but it is deepening the divide between smaller community-led organisations, and larger social business organisations that have the size and scale to deliver a range of services at a cost that commissioners are able to pay. There remains a real challenge for the sustainability of many smaller, more local charities as they lose grants and contracts. A return to some small grants to help smaller charities build community capacity on the ground could help these organisations. However, in the context of austerity it is difficult to see how realistic it is that this agenda could be delivered on a meaningful scale.

As NPC outlines in our recent paper, *Boldness in times of change*\(^{390}\), some organisations are shifting their models to concentrate on building on the resources communities and individuals already have. This asset-based approach involves changing the power dynamics of a more traditional charity model and supporting communities and individuals to create their own solutions. Arguably, this is a return to the roots of small civil society groups, born of the community, for the community. In an era where citizen and consumer expectations are raised and digital technology allows for greater connectivity, this is an approach that could prove fruitful for some.

Charities that are rooted in their communities have a key role in bringing people together and inspiring civic action by offering opportunities for people to be active in their communities. This is particularly important in the aftermath of the EU referendum campaign, which has exposed and created divisions in our society.

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\(^{387}\) Cabinet Office and The Rt Hon Matt Hancock MP ‘Governments announces new clause to be inserted into grant agreements’ 6 February 2016


\(^{389}\) Abercrombie, R. ‘*Speaking truth to power*’, NPC Blog, 3 September 2014.

The hollowing-out of local infrastructure creates a major challenge to supporting these sorts of smaller, more local community groups. There have been a number of efforts to reimage how these infrastructure organisations can move to a more sustainable model, such as National Association for Voluntary and Community Action (NAVCA)’s 2016 report *Commission on the future of local infrastructure*. The NAVCA report sets out how important the future of infrastructure is for its role of brokering between sectors—including helping bring in skilled resources from the private sector. In *Boldness in times of change*, NPC set out how digital technology can enable a more networked sector. This has the potential to enable organisations to share knowledge and ideas on an open source, peer-to-peer basis rather than the top down ‘broadcast’ model (where one organisation takes in the knowledge and sends it out to members). We have also proposed that the Big Lottery Fund should consider a bottom-up infrastructure fund to help make infrastructure more sustainable and fit for the future.

Volunteering is changing too. The NPC-led *Commission on the Voluntary Sector and Ageing*391 set out how demographic changes, and the characteristics of the older population now entering retirement, mean that there will be new types of more skilled volunteers in future. There is a real opportunity to capitalise on a growing part of the population, one that has a lifetime of skills and the enthusiasm to do more in retirement. There are challenges too, though. Some of the traditional volunteer roles in the charity sector may not appeal to this generation. Furthermore, individuals themselves may have to be in (paid) work for longer, and are likely to have more caring responsibilities for elderly relatives and grandchildren. There are greater opportunities too to broker skilled resource from private sector through Corporate Social Responsibility and employee volunteering programmes. To get the most out of these growing sources of volunteers, charities need to think carefully about the offer they make to volunteers.

**Pressures and opportunities**

What are the main pressures faced by charities currently, and what impact have these had? What opportunities do charities have in the current environment? Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

**NPC response**

The charity sector is always under pressure, and generally lives a hand-to-mouth existence. However, the current pressure is a lot greater than it has been in previous years. Charities face an ever increasing demand for services. This is in part due to demographic trends, and in part due to austerity. Meanwhile, the very same austerity leaves fewer financial resources with which to respond to this increased demand. In *Boldness in times of change*, we set out an overview of these challenges and what charities can do to

391 Commission on the Voluntary Sector & Ageing website: [https://voluntarysectorageing.org/](https://voluntarysectorageing.org/)
respond. We identify the major challenges as the changing funding landscape, the changing political context, and a trio of broader changes in society: demographics, social attitudes and digital technology.

NCVO’s Almanac\(^{392}\) shows that state funding for charities saw a decline from a peak of £15.6m in 2009/2010 to £14.5m in 2012/2013. This has risen in recent years—to £15m in 2013/2014—but the headline data masks deeper trends. Government grants are now less than half the level they were ten years ago (at £2.8bn), and recent NCVO research\(^{393}\) with Lloyds Bank Foundation demonstrated that all parts of the sector, except the very largest organisations, have seen a reduction in funding from government grants and contracts. Organisations with a turnover of less than £1m have been hit particularly hard.

The sector also has to contend with a loss of trust in charities—as recent Charity Commission polling\(^{394}\) demonstrates—and, particularly concerning for larger charities, the overall trend of a loss of trust in larger institutions. Since the public often do not differentiate between different types of charities, this is an issue for the rest of the sector. This matters because so many charities rely on public goodwill for donations and volunteers. Charities have committed a number of own goals over the past couple of years, not least in fundraising. Too often the culture in fundraising has not valued donors in the right way, and ended up treating people as cash cows to be milked. We have suggested that in order to change the culture of fundraising, charities adopt a ‘Gran test’\(^{395}\) along the lines of the Care Quality Commission’s ‘Mum test’. This would encourage fundraisers to ask themselves: ‘would I feel comfortable taking this action with someone I love?’ The sector needs to work hard to rebuild its relationships with supporters and the public in order to be able to deliver the greatest possible impact.

Alongside recent fundraising scandals—and, arguably, a large part of why they occurred—is the issue of inadequate governance. While we are concerned with the need to prevent catastrophic failures in governance, we also believe that inadequate governance more broadly is holding the sector back from delivering the greatest possible impact (a view we put forward, alongside recommendations for improvement, in It starts from the top\(^{396}\)). Boards are too often solely focused on organisational survival in the narrowest sense, rather than delivering the mission of charities. Many boards lack the right skills—particularly around digital technology. Another issue is a lack of diversity of perspectives and experiences represented on boards: trustees tend to be those with the time and independent wealth to get involved. Furthermore, the narrow focus of many boards—understandable given the regulatory incentives—results in organisations that are too conservative at a time when the country needs them to be much bolder in rising to the challenges our society faces. NPC believes a greater focus on impact from trustees, and a greater appetite for measured risk, would go a long way to making charities more

\(^{392}\) NCVO Almanac website: [https://data.ncvo.org.uk/a/almanac16/](https://data.ncvo.org.uk/a/almanac16/)

\(^{393}\) Crees, J., ‘The squeezed middle’ NCVO Blog, 11 February 2016

\(^{394}\) Charity Commission (2016), Public trust and confidence in charities

\(^{395}\) Murray, P. ‘Do charities need a Gran test for fundraising?’ NPC Blog, 21 January 2016

effective and helping them deliver much greater impact.

As NPC argues in our *Tech for common good*⁹⁷ paper, one of the biggest challenges the charity sector faces is the digital revolution. Technology has disrupted other sectors enormously over the past several years, and the pace of change is unlikely to slow down. Citizens and consumers are more connected than ever before, and technology is levelling the playing field between individuals and institutions. Yet charities face a chronic lack of digital expertise and capacity. They are woefully behind, as demonstrated by the *Lloyds Digital Index 2015*⁹⁸, which found that 58% of charities lack basic digital skills. Many that do engage in this agenda seek to develop single short-term solutions (such as apps) in isolation from one another, rather than collaborating to build the kinds of platforms that could transform the opportunities the sector has to make an impact.

In response to these challenges, NPC makes the case in *Boldness in times of change* that newer thinking is required from charities—and those interested in the sector—about the resources at our disposal. This includes thinking carefully about how we help communities and individuals build on their own assets, as well as the different relationships the sector needs to build with beneficiaries, funders, supporters and other sectors. In recent years there has been a growth in newer non-profit models such as social enterprises. These operate as businesses, where profits are generated but are reinvested in delivering social impact. Social enterprises may offer more dynamic and sustainable models for delivering impact in our society. However, these approaches are not without risks. Adopting models that rely on providing services and products to the public can mean that priority is given to the needs and desires of consumers rather than the individuals or social cause the organisation intends to serve. There is still a place for mission-driven organisations that respond to demand that is not consumer-led.

**Innovation**

**How do charities seek to innovate, particularly in the digital arena?**
What more could be done to promote innovation, and by whom?
What barriers are there to being innovative?

**NPC response**
Supporting charities to embrace the possibilities of new technology and the digital agenda is currently one of NPC’s main focus areas. We published the first report in our *digital transformation programme*⁹⁹, *Tech for common good*, last year and ran a series of seminars for trustees and leaders to understand and engage more in digital. We are currently working with partners across a number of sectors to build collective approaches to digital infrastructure. The following points are drawn from this experience.

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The pace of change in digital, and charities’ skills gap in this area, mean it is untenable to suggest an organisation-by-organisation approach to capacity building and digital up-skilling to drive innovation. The sector needs to pool capacity and pool innovations in ways that multiple organisations can then benefit from.

In order to help charities make the most of the digital innovation, skills, expertise and technology solutions need to be brokered from the commercial sector. In NPC’s experience there is enthusiasm in both the voluntary and business sectors for such an exchange, but what is lacking are the structures for brokerage.

Funding is also a barrier, not least for hiring in skills and for the ongoing development of technology. If the sector is to harness the opportunities digital offers, investment is needed. There is a strong role for government here to support this work, just as they have done in social investment, especially given how much greater the opportunities are in this area.

NPC suggests supporting and creating digital transformation funds that pool public and private funding, that work across one sub-sector each—for example the youth sector, or housing and homelessness—and that create a vehicle for brokering in skills and solutions from private sector. NPC is developing these models, and would welcome conversations with government about how this can be supported.

Governance and leadership

What skills are required to lead and manage a charity?
How can these skills be gained?
What support exists to develop these skills within the charitable sector?

NPC response

Leaders in the charity sector need a range of skills, but a focus on delivering impact must be at the centre of their agenda. We suggest that at the core of a leadership approach driven by impact, leaders will need to develop a clear theory of change and measurement framework to understand: what they are trying to achieve; how the organisation will deliver it; how they can evidence the organisation’s impact; and how they can learn, adapt and improve the organisation’s work. To do this, leaders need to be able to drive change through their organisation. This is not easy due to a range of vested interests, including those from volunteers and trustees who may resist change or new approaches. As Dan Corry, Chief Executive of NPC set out in his 2014 RSA lecture,

In such a changing environment new skills are needed, particularly those that aid collaboration within and across sectors (something charities have often found difficult to do). The challenges society faces—and that the sector seeks to respond to—are often

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400 Corry, D. How do we drive productivity and innovation in the charity sector? Speech at the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA), 8 May 2014
much larger and complex than one organisation. Soldiering on alone is not the way to deliver greater impact. A more agile, networked approach is needed, as suggested by Karl Wilding, Director of Public Policy and Volunteering at the National Council for Voluntary Organisations (NCVO), in a recent blog on charity leadership in a digital age. As we outline in Boldness in times of change, in order to maximise the work of the sector, charity leaders need to be bold and be prepared to try new approaches that may be more impactful in a changing world.

What role should trustees play in the performance and effectiveness of a charity? How can trustees be best equipped, enabled and supported to fulfil their responsibilities? What, if any, changes might this mean for current arrangements?

NPC response
There are approximately one million trustees in the UK. It is boards that set the charity’s strategy, appoint the top team, and oversee the organisation’s actions. Boards have a crucial role to play in driving their charities forward and ensuring they deliver the maximum possible impact for the beneficiaries and causes they serve. They are the guardians of the charity’s mission and can also play a key role in ensuring the voices of beneficiaries are not neglected. However, as outlined previously, governance is an area of major concern in the sector. Too many boards are coasting, just focusing on survival, and lacking a real link to the work of the organisation.

In Boldness in times of change we examine the questions and behaviours boards need to think about in our changing world. In a faster paced environment with organisations facing a dizzying array of new challenges, a traditional model of governance that relies on quarterly meetings may not suffice. New perspectives and skills need to be brought in, including finding meaningful ways to include the voices of those the organisations exist to help. Boards need to consider questions of mission versus organisational survival much more seriously, and to work collaboratively with other organisations to deliver the impact needed. NPC staff often meet charities that have become confused or misaligned about what they are doing and why they are doing it. Boards in particular need to have much greater clarity on the role their charity plays and where they can maximise impact. Finally, as we have stated on several occasions, the aversion to risk that many in the sector possess needs addressing. The world is changing, and charities need to change with it in order to continue to deliver their mission. This requires boldness for leaders and boards, but too often we see organisations held back by attitudes in the boardroom that fail to understand the opportunities out there and what is needed to maximise them.

In It starts from the top we look at the changes we need to make to structures and regulation to incentivise better governance in the sector. We recognise the wide range of organisations in the sector, and that any changes to regulation need to be proportionate. However, we believe all charities should be required to report—to some extent—on their impact, and on and governance processes around recruitment, induction, training, and development. Doing so will help boards keep focus on upping

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401 Wilding, Karl. ‘Charity leadership in the age of digital’. NCVO blog, 19 April 2016
their game and driving impact rather than just maintaining financial sustainability. The Charity Commission should have the power to sanction larger charities that repeatedly fail to engage with enhanced reporting.

There is a real challenge around increasing the diversity of trustees, including the skills and perspectives brought to the boardroom. It takes time commitment to be a good trustee, and often this is more available to those who have retired, or have independent wealth. Employers could do more to promote the benefits of trusteeship themselves, but there is a danger that charities will miss out on skills younger people have, particularly around digital, or the experiences of people who the charity exists to serve.

The sector has long debated the issues of paying trustees and the merits of governance models where chief executives sit on the board. There are pros and cons to both, but NPC believes it should be up to charities to make the decision themselves. If a charity believes there is a good reason to pay some trustees then they should be able to make the case to the Charity Commission. At present, guidance disincentivises this, and we recommend that this is amended.

Accountability

**How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

What, if any, changes might this mean for current arrangements?

How should charities assess their long term viability and/or sustainability?

**NPC response**

In terms of accountability the charity sector model is unique. If a business produces a product consumers will not buy, they will suffer from falling profits. If a government makes ‘courageous decisions’ that are deeply unpopular they can be voted out. But if a charity delivers a substandard service to the people they are working to help, these beneficiaries lack the ability to act directly. Charities are instead beholden to the priorities of funders, and a direct link to the end user often does not exist, except in the case of organisations working with people who have direct payments through personal budgets. This makes accountability to beneficiaries a hugely important issue for charities. As stated earlier, boards should play a key role in keeping the charity focused on mission, so they need a clear understanding of their impact, and to find ways to ensure they are listening to the voices of their beneficiaries.

Retaining public trust is one of the major challenges charities today face. NPC strongly believe the answer is greater transparency and accountability to the public. This is another reason why we support enhanced reporting the Charity Commission about the impact charities make. Doing so will help the public understand what their donations go towards and why, for example, a chief executive of a large charity may be paid more than the Prime Minister. Chief executive salaries and administrative costs will likely remain big public concerns. Yet if the role of charities is to convert philanthropic actions into social impact, then what really matters is the impact delivered for the causes and beneficiaries the organisation exists to serve. When parents choose a school they look at
the league tables to see the results, not back office costs or a headteacher’s salary.

As part of a move to aid greater transparency and accountability, we need greater availability of data, including from funders and government. NPC worked with the Ministry of Justice to create the Justice Data Lab, which uses the wealth of government administrative data to help charities and others understand whether or not their interventions have had a positive impact on the people they work with. NPC is calling for this model to be replicated across health, employment and education to enable organisations to understand their impact and improve what they do.

**Resource management**

**What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?**
How can these challenges be overcome?
How can best practice and information be shared across the sector?
What lessons can be learnt from past mergers or dissolutions of charities?
How can charities effectively deliver services and be assured that their work achieves successful outcomes?
What are the benefits and challenges of funding for charities being derived from commercial contracts?

**NPC response**
As we have set out, a major challenge to the sustainability of some charities are the changes in state funding, both the shift from grants to contracts, and the changes in commissioning that have disadvantaged smaller organisations. For others, new fundraising regulation—though both welcome and necessary to help restore public trust—could impact on the funds they are able to raise. Rogare, the fundraising think tank, has suggested as much as £2bn could be lost from fundraised income in the next few years.

There is a particular difficulty in raising funds for core costs and the overheads necessary to run an effective, efficient organisation. While public concerns about back office costs and chief executive salaries are real, what matters most is the impact charities can deliver. Stripping out management capacity and strategic capability will not lead to charities delivering the best they can do for beneficiaries. As the public are unlikely to donate for these functions, funders and government need to consider how they can support organisations to be more effective in delivering their mission.

Collaboration still remains difficult in practice across the sector. There are, for example, many factors that drive charities to compete—rather than collaborate—for funding. However, learning and best practice could be better encouraged by funders—including government—by supporting good quality evaluation of the programmes they fund, and then ensuring relevant research is published.

In a sector of 160,000 organisations there are many opportunities for different types of collaboration, and potentially some opportunities for mergers. Charities often fiercely
guard their organisation’s independence, however, and larger charities often comment that when a smaller organisation turns to them seeking a partnership, they are already in crisis and much more difficult to rescue. More far-sighted boards that put mission—rather than organisational survival—front and centre would enable mergers to occur from a position of greater strength to the benefit of all, beneficiaries in particular. There are many other forms of partnership and collaboration besides mergers, but decisions should be made in the interests of delivering the greatest possible impact, not as a last resort.

To marshal its resources so as to achieve real social good, the sector still needs to make progress on impact measurement. Charities need to ensure their systems produce robust and good quality data, and use that data to make informed decisions and provide better services, rather than just to secure funding. Expectations of what charities can do in terms of measurement must be proportionate to the size of the charity, but all charities must have an understanding of what they are trying to do and how they know if they have achieved it. Shared measurement tools—such as those produced by the NPC-coordinated Inspiring Impact programme—support greater understanding of the impact being delivered across sub-sectors, and help charities understand how they are doing compared to other similar organisations.

Some charities have sought to generate income by working with businesses. Commercial contracts can bring in private sector expertise, as well as generating income. The challenge is to ensure these partnerships align with a charity’s mission and are in the best interests of beneficiaries. It is imperative that charities are open and transparent about what they are doing and why, and how this fits in with their core aims.

Social investment

What is the potential of social investment and social impact bonds? What are the barriers to fulfilling their potential?

NPC response

The growth of, and government support for, the social investment market over the past few years have been very encouraging for charities and social enterprises. The voluntary sector’s funding problems are well known, and the sector has been incentivised to look towards more sustainable forms of income through a range of impact and investment readiness grant funds and funding for market infrastructure. However, there is a real danger of social investment being overstated by government. It is not right for all charities—it requires generating a return to investors, which may not be possible for some organisations depending on their size, model or the nature of their activities. There is evidence that charities are trading more, which may lead to a greater demand from the sector. Social investment may suit the business model of social enterprises more, but they need investment at the level they want—often investors want to invest larger sums than the small capital needed by a social enterprise to grow and scale a particular product or programme. We therefore welcome the Access Foundation’s

Inspiring Impact website: http://inspiringimpact.org/
initiatives in this area.

Despite consistent effort by Big Society Capital and others, education and capacity building with regards to social investment is still needed. Trustees are often risk averse. Many organisations are not good at measuring or evidencing their impact, and in the case of social impact bonds (SIBs), commissioners are not able to commission on outcomes very well. For SIBs to work, all three partners must be aligned—charities, investors and commissioners. It is extremely challenging to achieve this at a local level due to outcomes often falling between multiple siloed commissioning budgets, and the size of investment offered not matching up to the size of what commissioners are willing to invest. Initiatives like the Cabinet Office’s Social Outcomes Fund (SOF) and the Big Lottery Fund’s Commissioning Better Outcomes (CBO) have been central to developing the market’s knowledge, and we welcome the setting up of the Blatvnik School of Government’s GOLab.

SIBs do present a range of possibilities, including the potential to support innovative preventative models, and promote a more rigorous approach to measurement if done well. However, as NPC Chief Executive Dan Corry recently blogged⁴⁰³, the jury remains out on the success of SIBs so far, with a danger that the benefits have been somewhat over-hyped. A more sober analysis and debate around when they are appropriate and how they can help deliver greater impact is needed.

Impact investing has potential, but for the market to grow there need to be more consistent approaches to measuring social impact, and funders must allocate more funds towards this. Impact measurement is not yet regarded as a cost of doing business, but rather a ‘nice to have’. NPC has encouraged Big Society Capital to be more demanding of its investees in this respect. We also encourage government to lead the way by requiring those in receipt of tax advantages—charities, foundations and SITR investors—to be transparent and evidence the social impact they are contributing to.

The role of the government

What should the role of government be with the sector?
What should be the role of local Government?
What should be the role of the Charity Commission?
Have these relationships changed? If so, how?
How should Government (national or local) focus its resource to deliver its civil society agenda?
What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?
What are the opportunities and challenges associated with local devolution?

NPC response

Ultimately, the charity sector exists to make the greatest possible impact on the causes and beneficiaries it serves. Government’s role should be to support the sector to deliver the

greatest possible impact. It can do this in a number of ways, outlined in this section.

At a national and local level there is an acute need to focus on creating a level playing field in commissioning so that charities that can deliver the best possible service—whether large or small—are able to take part. The Social Value Act has not delivered the many significant changes that were hoped for. Commissioning should be based on the principle of who can deliver the greatest possible impact from the envelope, not, as is too often the case, who is the cheapest. In our response to the Social Value Act review we laid out a number of proposals, including the need for the government to define social value, that were taken up in Lord Young’s final report. However, it is disappointing there has been little progress since in improving how the Social Value Act works.

Government could also do much more to support the infrastructure that allows the sector to flourish, not least in the field of digital infrastructure where charities are so far behind. As a starting point charities should be specifically included in the government’s digital strategy. There is also much more that government could do to open up administrative data to enable better evaluation and learning, as the Ministry of Justice Data Lab demonstrates. Government should replicate this model in health, education and employment.

It remains to be seen what the impact of the move of the Office of Civil Society and Innovation from the Cabinet Office to the Department of Culture, Media and Sport (DCMS) will be, but there are reasons to be concerned. There are of course many charities that operate in the fields of culture and sport, but there are many more that do not, and it is not immediately obvious what this move means for them. For example, there is no clear link now between the voluntary sector and the public service transformation agenda, where charities are well placed to help deliver more integrated, preventative services in the community. Furthermore, the DCMS is not a cross-cutting department—unlike the Cabinet Office—which is likely to limit the way that departments across government understand the varied contribution charities can make when developing policy.

It is critical that government and the Charity Commission should not get in the way of charities having an independent voice. The ‘grants clause’ and EU referendum guidance were unwelcome interventions in the legitimate and valuable role that charities have in civil society, and have been a negative development in the relationship between charities, government and the regulator.

That said, the Charity Commission should be a regulator not, as some suggest, a cheerleader for the sector. The Commission is there to make sure that the public can be confident in charities, a role more important than ever in the wake of falling levels of trust. There is plenty to do to ensure boards prioritise impact and good governance, and the Charity Commission should concentrate on this. Our paper It starts from the top contains a number of specific recommendations about: increasing reporting requirements on impact and governance processes; powers to sanction repeat offenders who fail to

404 NPC (2014) NPC’s response to the Social Value Act review
adhere to these requirements; and amending guidance on paying trustees and allowing hybrid boards (where both executives and non-executives are full members).

The Charity Commission could also do much more with its own data. Many charities are set up with good intentions but without necessarily understanding who else is delivering similar services in an area and how well these existing charities are faring. Of course people should be free to set up charitable organisations, but there is a danger that the sector ends up duplicating efforts and working in an unfocused way that reduces the potential impact. If, when someone wants to set up a charity, they were sent the details of organisations doing similar work and their accounts for the last couple of years, it would provide new start-ups with a better idea of their prospects and some other organisations they could engage with. The Charity Commission holds this data and could use it in this way to nudge people to reduce duplication.

The devolution agenda offers exciting opportunities. It could enable the public sector to break down silos and engage with charities in order to deliver holistic, preventative interventions. However, to date this agenda has not included charities as deals have been negotiated between Whitehall and combined authorities. Charities also have concerns. For larger organisations, there may be the challenge of having to engage with a range of different areas and commissioners all with slightly differing priorities. For smaller charities the danger is that power gets sucked away from the local authority where they may have existing relationships, to the combined authority. In conversations about devolution it is easy to forget that, for example, the combined authority of Greater Manchester has a larger population than Wales. There is a real risk that trends in commissioning end up with mega-public contracts being commissioned out that are too large for many charities to engage with. The challenges faced by charities when engaging with Transforming Rehabilitation

Transforming the charity sector

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

**Increasing the impact of charities:** NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities’ money and energy go further, and help them to achieve the greatest impact.

**Increasing the impact of funders:** NPC’s role is to make funders more successful too. We share the passion funders have for helping charities and changing people’s lives.


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understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

**Strengthening the partnership between charities and funders:** NPC’s mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

*2 September 2016*
1: Overview of the research underpinning the written evidence

1. This written submission focuses on the role and purpose of faith-based charities in England. It draws on the findings of the report *Public Faith and Finance: faith responses to the financial crisis* (July 2016) by Dr Therese O'Toole and Dr Ekaterina Braginskaia of the University of Bristol.

2. The report examines how faith organisations, including faith-based charities, have been responding to the impact of the financial crisis and the politics of austerity through: 1) assisting those experiencing financial hardship; 2) campaigning for the reform of financial products and services; 3) advocating or providing alternatives to market-based finance.


2: Distinctive role and contribution of faith organisations (Q1)

4. In common with other studies on the role of faith-based charities, our research found that faith organisations play an important welfare role: particularly in providing responsive and contextually sensitive support to people experiencing financial hardship, often at critical moments, and frequently where no other forms of support are available.

5. Faith values are important to why and how faith organisations engage in welfare, activism or advocating alternative forms of finance, and these tend to drive holistic approaches to engaging with the impact of austerity, financial hardship or indebtedness.

6. Thus, faith values are important for promoting holistic approaches to welfare, to address people’s spiritual needs and the emotional, as well as material, aspects of financial hardship. This is exemplified in approaches that seek to remove the stigma or shame of receiving welfare or assistance and to assert the dignity of those in need. As one respondent from the Paperweight Trust, a charity working with the Jewish community across London, put it, ‘a key ethical value is that everyone is important and everyone is a human being with a soul who deserves your best attention.’ The concept of hospitality was mentioned by several organisations, including Sufra, a Brent-based Community Food Bank and Kitchen, which
emphasised the importance of treating people not as beneficiaries or service-users, but as guests or members of the family.

7. Faith organisations are often engaged in providing highly personalised forms of support that aims to address the causes as well as the symptoms of financial hardship, by identifying and addressing the inter-linked needs of individuals experiencing financial hardship and working closely with them to effect longer-term changes in their circumstances. For example, the Al-Mizan Charitable Trust, a Muslim grant-funding charity, has diversified their services from providing small grants to giving out sleeping bags and warm clothes to the homeless, essential baby items to new mothers and back-to-school backpacks for children. Similarly, the Sufra Food Bank and Kitchen views their food services as a gateway to its other education and training services and has set up ‘welfare surgeries [to] provide one-to-one support around things like housing, benefits, employment.’

8. A notable aspect of the holistic approach of faith organisations relates to the extra time that they invest in supporting people, which other organisations often cannot because of cuts to their staffing or resources, or because they close at 5pm. As was noted by a representative from the Church Credit Champions Network, a joint initiative between the Community and Theology Centre and the Church Urban Fund, ‘the church can give depth, a greater listening ear and a deeper relationship’, something that other services are not always able to provide.

3: Role of faith organisations in promoting cohesion (Q1)

9. Faith-based charities do not simply serve members of their own faith communities. Most faith organisations in our study provide assistance to people in their local communities and neighbourhoods regardless of their religious affiliation. This includes minority faith organisations who are playing an active role in providing assistance to those beyond their faith communities. Sufra Foodbank and Kitchen, for instance, assists disadvantaged families experiencing food poverty in the London Borough of Brent, regardless of their ethnic group or religious affiliation.

10. We found many cases where places of worship are being used as hubs for the wider community, for example, to run food banks or credit unions or provide debt advice services (something that was very common among churches).

11. Faith and secular ethical values can be productively brought together to develop innovative and sustainable and ethical approaches to finance, debt and welfare provision. Thus, many faith organisations work, in often innovative ways, with other faith and non-faith groups to address the challenges caused by welfare and public spending cuts, for example by creating local partnerships to pool resources and knowledge to provide welfare.
12. Interfaith work on welfare issues often happens under the radar, particularly in relation to food and welfare assistance, because they tend to be based on informal relationships and collaboration.

13. Other approaches to collaboration include building of more formal consortia across groups to strengthen faith organisations’ capacity to bid for funding (e.g. the Interlink Foundation, a Jewish charity, has played a leading role in developing the ‘City and Hackney Together’ consortium of voluntary and community sector organisations to deliver health and wellbeing services).

4: Role of faith organisations in promoting civic action (Q1)

14. We found many examples of faith organisations seeking to develop interfaith dialogue and contribute to community cohesion through forms of civic action. For example, interfaith events such as the annual Mitzvah Day, Saddaqaq Day and Sewa Day foster interfaith engagement through volunteering and social action.

15. Faith values are important for promoting the civic role of faith organisations in engaging critically with issues of finance and advocating more ethical and sustainable approaches to lending, borrowing, saving, investments and financial literacy.

16. For instance, we found many faith organisations offering a range of forms of financial education and training to promote better awareness of ethical and religious principles to enable people to apply these to their financial affairs. This can be seen in the work of the Church Urban Fund’s LifeSavers programme which runs primary school-based financial education programmes that focus on ethical understandings of finance including: the importance of giving; the implications of spending and consumption; the significance of indebtedness; and how ethical approaches to money enable people to practice citizenship. Similarly, 1st Ethical, a Muslim educational charity, has developed a range of financial education programmes from primary to adult level, to enable people to make ethical decisions about money, investments or borrowing, informed by principles of Islamic finance.

17. Faith organisations often draw on their close links to communities on the ground and faith-based practices and values to campaign for reform of welfare policies and financial services and address the (sometimes unintended) implications of policies and practices (such as the Funeral Poverty Alliance initiated by Quaker Social Action that draws attention to the impact of administrative processes and high funeral costs on bereaved families).

18. Faith organisations are also active in developing strategic alliances, often with other faith and non-faith organisations, to campaign for or develop more ethical approaches to finance (e.g. Citizens UK’s Just Money campaign developed through an alliance of faith and non-faith organisations, and the Jubilee Debt Campaign has seen involvement from a wide range of faith and secular groups, whilst the Ecumenical Council for Corporate Responsibility is a church-based coalition that campaigns for fairer banking and taxation and financial transparency).
19. Faith values are significant in motivating work with other organisations to develop sustainable services or platforms for more ethical approaches to finance, but faith values can overlap with other faith and secular/ethical values to enable successful forms of collaboration to develop alternative, ethical approaches to finance. For example, Street UK, an ethical social enterprise, and St Martin’s Affordable Finance, a Christian charity linked together to develop Street UK Online, which provides affordable and accessible lending services and aims to be a credible, ethical and sustainable alternative to payday lenders.

5. Challenges faced by faith-based charities (Q2)

20. Faith organisations often struggle with lack of resources and funding and occasionally suffer from spreading themselves too thinly.

21. Faith organisations are diverse not only in terms of different faith traditions and perspectives, but also in relation to their different organisational features and capacities. Yet, both highly organised and informal groups are engaged in providing services and support to people within and frequently beyond the membership of their own faith communities. For example, welfare and food assistance is often provided under the radar and in quite informal ways, and by groups with relatively low levels of institutionalisation, which can nonetheless be effective in addressing the needs of hard to reach communities. Many groups do not wish to formalise their operations or practices. We suggest that recognising the legitimacy of formal and informal organisations and enabling forms of support for, and funding to, informal groups would be beneficial.

22. A lack of organisational capacity is often a feature of minority religious groups, and in the present climate can be particularly hazardous for Muslim organisations and charities (see paragraphs 25 and 26 below).

23. Faith organisations that would like to build their organisational capacities would welcome more support and advice from government, the Charity Commission or voluntary sector organisations to develop their governance structures, mechanisms for financial transparency and understanding of compliance with charity regulations.

24. Faith organisations can, and many believe should, play an important role in providing a critical feedback loop to government in identifying problems and innovating new approaches. Some organisations felt they are delivering services identifying issues, but are not ‘allowed’ to criticise government and as a result don’t speak out. As one respondent put it to us, ‘a lot of our work can be geared towards challenging government policy and showing gaps in the welfare system, [but due to the lobbying clause] we stay away from criticising government policy to that extent.’ Yet, faith organisations can be well placed to identify the specific needs of communities. For example Muslim charities have been involved in successfully lobbying for the introduction of sharia-compliant student loans to increase Muslim students’ access to Higher Education, whilst coalitions of faith groups have successfully campaigned
for the introduction of credit caps (through the Just Money campaign) to reduce the impact of high-cost credit for financially excluded groups, and raised awareness of the impact of the two child tax-credit cap for communities that traditionally have larger families.

25. Organisations reported to us that in the present climate many Muslim charities feel under particular scrutiny from the Charity Commission or the media with regard to issues of governance and finance, and many charities can find themselves under suspicion of impropriety, although their real issue is underdeveloped mechanisms of governance or lack of knowledge of regulatory issues. Whilst many faith organisations report a need for more training and advice on compliance, it is seen as a particular jeopardy for Muslim organisations at present.

26. A respondent from one participating organisation observed that with regard to Muslim charities, some had had their bank accounts shut with no explanation or communication on behalf of the large international and UK-based banks that held them. Thus, there appeared to be a lack of transparency or consistency in the ways in which Muslim charities are dealt with by the banking sector.

6: Role of government (Q9)

27. Government and secular organisations should recognise the value and contribution of faith-based work on addressing debt and financial hardship. Some respondents suggested that ‘there is still too much suspicion around faith organisations, particularly from secular organisations’. Yet alliances between government, secular and faith organisations to promote ethical finance are not only possible but can be productive. For example, The UK Islamic Finance Council has played a leading role in the establishment of the Ethical Hub in Scotland, with the support from the Scottish Executive, and provides a networked, collaborative approach to incubating ethical businesses, drawing on ethical and Islamic finance principles.

28. More support for improved governance, financial management, understanding of regulatory regimes and fundraising within faith organisations is needed, and particularly approaches that are suited to faith organisations of differing sizes and capacities.

29. There is a need for forms of appropriate support for very small or informal groups that do not require them to become highly bureaucratic (e.g. the Near Neighbours model of support and funding might have some relevant characteristics, particularly in relation to its approach to building capacity and promoting civic engagement through local hubs that work closely with local/faith groups; light bureaucratic load; cross-faith and group approach; and willingness to engage in a language of faith).

30. Although the anti-lobbying clause has been paused there is a perception among some organisations that while they are expected to step in and deliver services, they
are constrained in publicly expressing concerns about or criticisms of government policies.

31. Some Muslim charities are particularly apprehensive about the reputational damage that might follow if they fall short of regulatory requirements – in particular there are concerns that problems arising from underdeveloped governance mechanisms may be read erroneously as arising from extremism. Many faith organisations – and not only Muslim organisations – would value more help and support on issues of governance, financial transparency and regulation to enable them to develop their organisational structures and capacities (if they wish to). Such support and training could come from, or in collaboration with, the voluntary sector, for example from organisations such as NCVO (www.ncvo.org.uk) or Small Charities Coalition (www.smallcharities.org.uk).

5 September 2016
The Committee asked for the following questions to be considered by the Office for Civil Society (OCS) in its response. Responses are below each question:

1. **What is the Government’s role in, and relationship with, the charity sector? What are the Government’s priorities for the sector in the coming years?**

The Government’s vision is for a bigger, stronger society with compassion and opportunity at its heart. We want to see a more engaged nation in which we take greater responsibility for ourselves and for our neighbours and where we reduce demands on the state by involving people, neighbourhoods, villages, towns and cities in the task of improving our country. A vibrant civil society has a key part to play in delivering this.

There has been an impressive response by civil society and faith groups to support vulnerable people during a difficult economic period, and everyone involved should be recognised for their important work.

A vibrant civil society is key to building stronger and more active communities. Around 40% of people benefited from the work of a charity in 2014, and charities employ more than 820,000 people. The 2016 NCVO Almanac shows a resilient voluntary sector playing a vital role in our national life. It shows a sector with diverse funding streams, generating more earned income from individuals and other sources. The Office for Civil Society (OCS) is helping charities and social enterprises to innovate and adapt.

Government has a number of roles in relation to the charity sector and wider civil society. It is responsible for ensuring that charities have an effective legal and regulatory framework that supports public trust and confidence in charity; Government is a direct funder, through programmes such as the Local Sustainability Fund, a commissioner of services, and a partner in designing and delivering public services and tackling social issues at local, regional, national and international levels.

Much has been achieved over the last six years:

- **Volunteering** - 3 million more adults volunteered last year than in 2010, and by 2015 volunteering among 16-25s was up 52% since 2010.
- **Giving** - the CAF World Giving Index 2015 ranked the UK the 2nd most generous nation in the world, up from 8th in 2010. Over 1 million people in the UK now give regularly, a total of £11bn each year.
- According to the NCVO Almanac, income from government increased by 3.5% to £15bn between 2012/13 and 2013/14.
- Despite predictions from some to the contrary, according to Charity Commission data the number of registered charities has risen since 2010, their reported income
is up by almost 35% at over £71bn and their workforce has grown and is now approaching 1 million.

- The social economy is thriving: two hundred thousand social enterprises now employ more than two million people, and the UK is recognised as a World-leader in social investment and social impact bonds.
- Social action contributes £34bn (and growing) each year to public services, reducing the pressure on the NHS and schools for example.
- The regulation of Fundraising has been reformed to support public trust and confidence, and the Charity Commission has been given new powers - that it, Parliament and the NAO said were needed - to help it tackle serious abuse.
- Over 275,000 young people have already taken part in National Citizen Service.
- Over 6,500 Community Organisers have been recruited. They act as local leaders bringing people together to take action on the things they care about. By the end of this Parliament this is expected to grow to 10,000.

The backdrop to these achievements is a healthy relationship between Government and civil society, working well in partnership to deliver in communities up and down the country. Like all healthy relationships there are sometimes disagreements, but there is huge mutual respect for and support from charities. The Government has listened to concerns raised by civil society organisations, engaged in discussion, and collaborated and partnered on shared aims.

There is also an ambitious programme for the current Parliament, and clear priorities for the coming years.

Supporting small charities continues to be a priority. The £20m Local Sustainability Fund, launched towards the end of the last Parliament is helping over 260 small and medium charities working with vulnerable and disadvantaged people to reform and secure the future of their services. The fund came about as a direct response to sector concerns that small and medium charities were struggling more than others to respond to the challenging operating environment.

We launched a Small Charities Fundraising Training Programme designed to help small charities to fundraise more effectively. The programme is providing a significant number of training opportunities, such as face-to-face workshops, webinars and advice sessions. We are encouraging businesses and charities to share professional skills with civil society organisations through volunteering. By the end of 2016 we will have supported networking to encourage skills exchange in every region in England.

We have also started a conversation with voluntary organisations, commissioners and other public bodies about the impact small charities can achieve on public services.

Supporting civil society’s role in public services is another priority for OCS. This is another area where we have listened to sector concerns and are acting on them. We know that charities and social enterprises can have a hugely positive impact on public services and engage some of the most difficult to reach communities in our country. This is why we have
been engaging key voluntary sector and public stakeholders in a policy conversation about enabling more charities to improve public service outcomes. The recommendations from this process will inform our policy direction going forward so that as many people as possible can benefit from the innovative work the voluntary sector does.

We will continue to encourage innovation in the delivery of public services, including by public service mutuals. We continue to support procurers to improve the way they commission services, including through sharing best practice on implementing the Public Services (Social Value Act) 2012.

We are helping charities to access existing funding opportunities and we are exploring new potential funding sources for civil society, such as dormant assets. For example, the “Access Foundation” is building the capacity of small and medium charities to make the most of social investment funding opportunities. We have committed to scale up Social Impact Bonds in areas like youth unemployment, mental health, and homelessness and we launched the new £80m Life Chances Fund which will catalyse many more Social Impact Bonds tackling complex social issues locally, including drug and alcohol dependency. We announced the Dormant Assets Commission last year to unlock significant amounts of assets as a new funding source for civil society.

We have a strong package of youth policies and programmes. This includes supporting the growth of social action and volunteering, including expanding National Citizen Service. We are also supporting HRH the Prince of Wales’s Step up to Serve initiative, which encourages youth community involvement.

2. What is the status of the Office for Civil Society and Innovation within Government? Is the Government committed to the continuation of the Office for Civil Society and Innovation and how does it see its role developing in the coming years?

The Office for Civil Society (OCS) is responsible for delivering key programmes that drive the Government’s agenda to build a Bigger and Stronger Society, delivering several manifesto commitments. The 2015 Spending Review delivered funding for OCS to carry on this work. In fact the OCS budget is due to increase over this Parliament, and we’re also looking at ways of unlocking other resources for the sector such as through the Dormant Assets Commission. At the same time, OCS is fully contributing to the department’s commitment to achieve efficiencies.

Following the recent machinery of government move from the Cabinet Office to the Department for Culture, Media and Sport, the Office for Civil Society will retain its identity as a unit within DCMS. We are looking to build upon existing partnerships and realise further benefits and opportunities from this move.

Our commitments were set out in the Cabinet Office’s Single Departmental Plan for 2015-20, as follows (we will now need how to incorporate these into the Department for Culture Media and Sport’s Single Departmental Plan):

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Extract from Cabinet Office Single Departmental Plan 2015-20

To build a stronger civil society, the Cabinet Office will:
1. support young people to be involved in their communities and promote social action
2. support social investment, innovation, and an independent and capable voluntary sector

We will:
- guarantee every child a place on National Citizen Service, so they can learn new skills and meet young people from different walks of life
- look to scale up social impact bonds and payment-by-results, focusing on youth unemployment, mental health and homelessness
- support the Prince of Wales’s ‘Step up to Serve’ initiative, encouraging young people to serve in their community
- help everyone volunteer and support action to help the vulnerable
- support an increase in public service mutuals – organisations that are owned by their staff and deliver public services – by guaranteeing a ‘right to mutualise’ within the public sector
- examine ways to build on innovative ways to deliver high quality public services such as the Work Programme

3. How has the relationship between the Office for Civil Society over the rest of Government changed in recent years?

The Office for Civil Society has built strong links across Government and a strong reputation as a centre of expertise and innovation in the wider Government’s relationship with civil society. This reflects ten years of experience at the centre of government, working on a wide range of policies across Government that impact on civil society.

For example, in the last Parliament OCS and the Department for Health worked closely together to support the Alzheimer’s Society to increase understanding of dementia with a grant of £2.4m for the Dementia Friends initiative. Dementia Friends is a mass social action movement which reached 1 million people and continues to grow and gather momentum.

The OCS Centre for Social Impact Bonds (SIBs) also works across central government to encourage and support other departments to develop and commission SIBs. This includes working with the Department for Communities and Local Government to develop an outcomes fund for SIBs to support rough sleepers into stable accommodation, and supporting the joint Department for Work and Pensions’ and Department of Health’s Work and Health Unit to develop a SIB fund supporting people with mental health problems into work.

The recent machinery of government change that has moved OCS into DCMS will enable us to build on existing joint work such as sponsorship of the Big Lottery Fund, or supporting the
development of the Arts Impact Fund, a fund that is showcasing the potential of social investment in the arts. OCS also brings everything that it has built up over the last 10 years that it has been in Cabinet Office: the close relationships with external partners, the links and partnerships with colleagues in Cabinet Office and across government, as well as a full policy portfolio.

4. **How does the Government plan to manage the expansion of the National Citizen Service, and how will this expansion be funded?**

Over 275,000 young people have participated in National Citizen Service (NCS) since 2010. It is the fastest growing youth movement since the Scouts over a century ago. NCS graduates have given more than 8 million hours of service to their communities. Every £1 spent on NCS generates up to £3.98 in social benefit to the participant and country.

We want all young people to have the opportunity to participate in the programme to learn new skills, give back to their communities, mix with people from different backgrounds, and learn to work together. OCS is working closely with the NCS Trust, who deliver NCS, to develop their plans to grow the programme.

OCS is also taking forward the NCS Bill which will create a delivery body that is fully accountable to Parliament and the public and has the right balance of operational freedom and government oversight.

5. **How has the Government measured the success of other recent social and youth action initiatives such as Community First?**

Evaluation is a key ingredient of all OCS programmes. An independent evaluation of the Community First Programme was published last year, showing it supports increases in wellbeing and volunteering. National Citizen Service has been subject to a series of independent evaluations which have shown that NCS is consistently delivering positive impacts for both the young people who take part and their communities.

Through the Community First Neighbourhood Match Fund, nearly 600 volunteers panels have made £27.2 million in funding recommendations to nearly 18,000 projects. Communities have matched this to the tune of over £93m, including £15.3m in cash match and 5.5m volunteering hours. For every £1 of government money, people have matched the equivalent of £3.40 of in kind support, exceeding government expectations threefold. Effectiveness has been measured through an independent evaluation of the programme, which was published last year, as well as in house analysis of the programme which has shown that in areas where Community First is active, wellbeing and volunteering levels have been boosted.

Consecutive, independent evaluations have demonstrated the positive impacts that National Citizen Service delivers to both its participants and their communities. The most recent NCS evaluation showed that 7 in 10 participants felt more confident about getting a job as a result of NCS and 8 in 10 finished NCS feeling more positive about people from different backgrounds. NCS graduates are also more likely to use their time to help others.
6. **How will the Office for Civil Society and Innovation meet participation targets for the National Citizen Service as it expands, given the shortfall in participation rates in previous years?**

We are working closely with the NCS Trust to deliver expansion of the programme. Over 275,000 young people have already benefited from NCS, and the results of the 2015 evaluation will be published shortly.

The NCS Trust work with a supply chain of over 200 organisations who deliver the programme, most of whom are from the public or civil society sectors. Our investment in NCS supports these organisations and we will continue to work with, and support, even more public and VCSE bodies through the programme. NCS is a life changing opportunity and it is imperative that we extend the opportunity to young people from all backgrounds.

7. **What steps is the Government taking to support the Charity Commission in improving its performance, and in implementing the provisions of the Charities (Protection and Social Investment) Act 2016? How would the Government characterise the current and future role of the Charity Commission and its relationship with the Government?**

The Charity Commission is the independent registrar and regulator of charities in England and Wales. Its statutory objectives, functions and duties were reviewed by Parliament in 2006 and are set out in the Charities Act 2011. In refocusing its regulatory role to become a more robust and proactive regulator it is doing what Parliament (through the Public Accounts Committee and the then Public Administration Select Committee) asked it to do. The Commission’s focus on regulation also has strong public support. Last year the National Audit Office (NAO) said that the Commission had made, good, early progress in implementing the NAO’s recommendations.

The Charity Commission’s independence from Ministerial intervention or control is provided for in statute (section 13(4) Charities Act 2011). However the Office for Civil Society does have a good working relationship with the Charity Commission at both Ministerial and official level, for example working closely together on the Charities (Protection and Social Investment) Act 2016. In working with the Charity Commission, its independence is clearly understood and respected.

The Minister for Civil Society visited the Charity Commission’s Liverpool office in May 2015 and was impressed by the commitment and expertise of the Charity Commission’s front-line staff, along with their enthusiasm and determination to improve the way they regulate charities.

The Government has taken several steps to support the Charity Commission in improving its performance. In October 2014, the then Prime Minister, David Cameron, announced £8m of additional funding for the Commission over the financial years 2014/15, 2015/16 and 2016/17 for a transformation programme to enable the Commission to become a more
effective and efficient regulator. The Charity Commission is also expected to consult on options for its future funding, which will include the potential for charging.

The OCS worked very closely with the Charity Commission to develop new and enhanced compliance powers delivered through the Charities (Protection and Social Investment) Act 2016. One of the benefits OCS (and the Commission) anticipates is that the new powers will enable the Commission to regulate more efficiently as well as more effectively and proportionately.

The Government accepted the NAO recommendation to recruit a board member for the Commission with digital expertise; interviews for that post have concluded, and with a strong field of candidates an announcement about the appointment is expected shortly (along with other board member appointments).

**8. Why has the Government decided to prioritise social investment over other forms of charity funding? Given its limited reach to date, how does the Government intend to overcome barriers to increasing the overall level of social investment?**

We have made huge efforts to stimulate a giving environment and so it is encouraging to see that levels of giving to charities are holding up, and that the UK is ranked as the second-most generous nation in the world for charitable giving. It is also important to note that most small charities receive no funding from the state. Even so, according to the NCVO’s Civil Society Almanac 2016 voluntary sector income from government sources actually grew to £15bn between 2012/13 and 2013/14, an increase of 3.5%, although it remains below its £15.6bn peak of 2009/10. Social investment is a small but important and growing part of the mix of funding. Social investment brings new finance into the social sector, and many of those who have accessed social investment have also increased their impact by scaling up their services or creating new services that wouldn’t have otherwise been commissioned.

During the last Parliament OCS took pioneering steps to expand the social investment market by building the right infrastructure, such as Big Society Capital (BSC), increasing supply and introducing new players into the market. BSC was set up with start-up capital of £600m and has now built a landscape of over 30 organisations that specialise in providing affordable and appropriate capital to social sector recipients. By the end of 2015, BSC and private match investors had made £587m new investment available for the social sector through intermediaries. £195m of this had been drawn down and was in use by charities and social enterprises.

OCS also supported the growth of innovative investment models which brought new finance and new players into the market. For example, the Dementia Discovery Fund, is a £70m structured fund that combines government, philanthropic and private money to invest in dementia research.

OCS is now actively seeking ways to mainstream social investment by involving the general public and mainstream business, and expanding the market by building capacity for government to use social investment.
There are barriers for social enterprises and charities to take on investment from capacity and capability to knowledge, skills and awareness. OCS continues to take extensive steps to ensure the market works for social sector organisations.

In the last Parliament OCS increased demand for social investment and supported charities and social enterprises to prepare for investment:

- Over 150 charities and social enterprises were able to purchase capacity-building support through the £14m Investment and Contract Readiness Fund (ICRF) to help them secure more social investment and win public service contracts.
- OCS also set up the £10m Social Incubator Fund, which has been matched by over £10m of private sector funding, to support incubator organisations that provide finance and advice to social start-ups.
- OCS responded to demand for smaller loans to charities and social enterprises.

In 2015 “Access: The Foundation for Social Investment” was established with an endowment of £60m endowment alongside funding from Big Society Capital and Big Lottery Fund. This is building capacity in civil society, particularly targeting smaller organisations, to increase access to social investment through small-ticket lending (providing loans of under £150k) and access to specialist support. Access has now launched a suite of support programmes. These include support measuring social impact, capacity building and smaller loans.

9. How does Government assess and monitor the social investment sector? How is its role and impact critically appraised?

The Government has regularly published its strategy for promoting social investment, with the most recent update being earlier in 2016. The starting point for the social investment strategy naturally comes from an assessment of the existing landscape - this is examined through data collection from both industry stakeholders as well as wider sources. In particular the Government has used the Small Business Survey 2014 to generate the Social Enterprise: Market Trends 2014 report, published alongside the 2016 social investment strategy.

At a more granular level the government believes that digital and data approaches can help the social investment market deliver greater social impact. The UK has aimed to be the most transparent social investment market in the G20. Government has led the world with initiatives such as the unit cost database and the online data platform for the Social Incubator Fund. Grant funding programmes such as the Investment and Contract Readiness Fund have been rigorously evaluated - demonstrating the effectiveness of supporting social enterprises.

10. What is the role of charities in delivering public services? How will the Government help charities overcome obstacles to bidding for contracts?

Charities have always played an important role in delivering vital services to our communities. They are able to reach some of the most disadvantaged communities and those furthest removed from statutory services. We value this ability greatly.
The OCS is engaging in an open policy dialogue with charities to explore the scope for government, voluntary sector and public bodies to take action and better enable charities to access public service outcomes. Part of this work involves assessing barriers to effective civil society participation in public service delivery and how such barriers might be overcome.

During this dialogue we identified three main barriers to more effective participation in public service delivery: 1) engagement barriers which made it harder for civil society organisations to prove their worth as a supplier to public authorities; 2) structural barriers which inhibit civil society organisations ability to bid for or deliver contracts (such as financial risk, size of contracts or financial guarantees) and 3) a lack of capacity and capability to fully access the public services market.

On the basis of these insights we are developing a package of measures which will address these barriers and will enable wider sharing of existing best practice and expertise.

Through the Commissioning Academy OCS is encouraging commissioners to consider accessing wider resources available in the community, including charities, when procuring public services. Grants will continue to provide a valuable source of finance. However, a mixed economy of funding is essential to ensure sustainability for the sector as whole.

In September 2016 the OCS published the first two in a series of eight case studies on the application of the Social Value Act, under its Social Value Implementation and Measurement Project. These provide real accounts from civil society organisations and service commissioners of what can be involved at the forefront of generating social value. As well as giving a practical insight, the case studies are intended to serve as starting points for initiating new ideas and for sparking innovative thinking.

**11. Is impact-based funding, linking support to measurable outcomes, a sustainable way to fund charities delivering public services? How does Government seek to overcome the problems associated with measuring outcomes?**

Social Impact Bonds (SIBs) and impact-based funding represent a significant opportunity to reform public services to reduce demand, improve outcomes for complex groups, and create significant savings for the taxpayer. What we’ve learnt over the last six years is that the test of a good social programme isn’t how much you spend but how well you invest it. In short, how many lives you change.

The UK has pioneered the use of social impact bonds and payment-by-results: there are now 32 SIBs in the UK which is more than the rest of the world put together. The 2015 Spending Review announced that Government would expand support for Social Impact Bonds by allocating £105m over the parliament to tackle issues including homelessness, poor mental health and youth unemployment. This includes the £80m Life Chances Fund that was launched on 4th July 2016 that will catalyse local SIBs.

The Government Outcomes Lab delivered through the recently announced partnership with the Blavatnik School of Government at Oxford University will become a centre of expertise.
for SIBs and innovative government commissioning, by increasing the information, data, evidence, and technical support available to commissioners to develop more SIBs locally.

The Centre for Social Action (CSA) helps test and grow social action initiatives that complement public services and improve social outcomes. Key to this are impact-based funding and building the evidence base around what works. Indeed up to 15% of the CSA grant award is allocated to evaluation. Through the Centre OCS has supported a large number of organisations to significantly improve their evidence base and secure funding from other funders or commissioners as a result.

12. What other steps is Government taking to support charities in securing sustainable future sources of income?

The OCS is already helping the sector to diversify income streams and explore new income options through a range of programmes, including:

- growing the UK’s social investment market, to give the sector access to an important new source of finance to help scale projects that work. As part of this OCS helped to established Access, the foundation for social investment. Access is working to help small charities get ready for social investment.
- providing funding of £17.5m to over 260 small charities through the Local Sustainability Fund. This is designed to give organisations the time, as well as access to expert advice, to support their transition to sustainable business models; and,
- delivering fundraising training for small charities.

An independent Dormant Assets Commission has been tasked to report by the end of 2016 on the potential for further financial and non-financial assets to be brought into the scheme. There is huge potential here to release significant sums of money for good causes. The OCS has also supported the sector-led reforms of fundraising self-regulation, to help rebuild public trust and confidence in charity fundraising and to preserve and grow voluntary income for charities.

Looking to the future the OCS is currently working with a partnership of sector funders and representatives, to look at approaches to help the sector’s leadership respond to the challenges it is facing, including delivering alternative ways of working; and, carrying out an open policy making process to identify ways in which the sector can help to deliver better public services.

13 September 2016
Further Select Committee questions

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?
   - How has this changed?
   - What makes them distinct from other organisations doing similar work?
   - What role can charities play in community cohesion and civic action?
   - How does the sector benefit from volunteering?
   - How has the status of volunteers changed?
   - What challenges do charities face in trying to fulfil their role in civic society?
   - How can these challenges be overcome?

Charities have a wide range of roles and charitable purposes, all of which are legitimate. Charities are independent, and it is not for Government to dictate what particular role or charitable purpose charities should pursue. What makes charities distinct from other types of organisation is that they must exist for exclusively charitable purposes and for the public benefit. This goes to the heart of what charities are; independent organisations legally committed to a social purpose and putting the needs of others first.

Charities benefit hugely from the public in both financial donations and volunteering. According to the Community Life Survey 2015-16, 41% of people participated in formal volunteering at least once in the past 12 months, remaining stable when compared to 2014-15 (42%). 60% of people informally volunteered in the past 12 months, which also remains consistent with 2014-15 (59%).

Different types of charities face different issues. For example, for some charities fiscal consolidation in recent years has meant a reduction in funding from the state and they have had to adapt to survive in a different economic environment (although it is important to note that 75% of charities receive no funding from government). The Government is committed to helping charities tackle barriers that prevent or inhibit them from doing their work, and has for example provided transitional funding such as the Local Sustainability Fund to help charities faced by this challenge to adapt and become more self-reliant and sustainable.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?
   - What opportunities do charities have in the current environment?
   - Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a
rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

These are questions for charities and their representative bodies to answer. However, the Government recognises that charities of different types and sizes can face different pressures. In a number of cases where there is evidence of particular pressures the Government has worked with charities to help them respond to such pressures.

**Innovation**

3. How do charities seek to innovate, particularly in the digital arena?
- What more could be done to promote innovation, and by whom?
- What barriers are there to being innovative?

The question is best answered by charities themselves. In Government’s experience, there are many good examples of charities engaging innovative approaches, including in the digital arena, that deliver better outcomes for their beneficiaries.

**Governance and leadership**

4. What skills are required to lead and manage a charity?
- How can these skills be gained?
- What support exists to develop these skills within the charitable sector?

There are thought to be around 1 million trustee positions for charities in England and Wales, almost all of which are filled by volunteers. Hundreds of thousands of people regularly give up their time to act as charity trustees. The skills needed to do so will vary hugely from one type of charity to another, depending on its size and its activities. However one factor that is constant across the incredible diversity of the charity sector is trustees’ commitment to their charity and their passion for its cause. In terms of skills, what is common in the requirements of all trustees is an ability, in collaboration with their fellow trustees, to define a clear strategy for their organisation and take the necessary decisions to deliver on that strategy.

Most charities are very small and in such cases the trustees may be the only people to do all of the charity’s work - they may not have any employees to delegate to. The skills needed for this would be very different to a trustee role in a large service delivery charity with thousands of employees, for example.

Despite the variation in the requirements of trustees across the sector there are certain areas of experience and expertise that many charities actively recruit for, for example: law; accounting; marketing and communications; and, fundraising. However, given changes to the sector’s funding environment and in wider society, charities are increasingly in need of trustees with a wider range of skills, for example: digital development and delivery; commercial capability, to enable the charity to access new sources of unrestricted income; and, change management.
Having a board with the necessary knowledge and skills is critical to organisational success, yet many charities are reluctant to invest in board development, particularly at the expense of frontline delivery. OCS is currently working with a partnership of sector funders and other influencers, to look at how to encourage greater awareness of the importance of investing board skills and if there is a need to put in place simple, affordable and accessible offers of support.

5. What role should trustees play in the performance and effectiveness of a charity?
- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
- What, if any, changes might this mean for current arrangements?

Charity trustees are legally responsible for ensuring their charity is pursuing its charitable purpose and is well managed. Trustee duties are explained clearly and simply in the Charity Commission’s guidance document “The essential trustee: what you need to know, what you need to do”. Trustees’ duties can be summarised as: ensuring the charity is carrying out its purposes for the public benefit; complying with the charity’s governing document and the law; acting in the charity’s best interests; managing the charity’s resources responsibly; acting with reasonable care and skill; and, ensuring the charity is accountable.

To build a firmer picture of the state of trustee awareness and development, OCS is working with the Charity Commission, Cranfield Trust and CASS Centre for Charity Effectiveness to carry out research.

Intelligence gathered through research will inform the development of interventions to address the problems identified across the sector. As highlighted in our response to question 4, OCS is working with partners to look at how to stimulate greater awareness of the need to invest in trustee development, and if there is a place for more accessible and engaging development opportunities.

**Accountability**

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?
- What, if any, changes might this mean for current arrangements?
- How should charities assess their long term viability and/or sustainability?

Charities must already account each year for their income and expenditure, and whatever their size, these details, in their accounts and annual report must be made available to the public on request. Registered charities with incomes over £25,000 must submit their annual accounts and trustees’ annual report to the Charity Commission which publishes them on the charity’s entry on the publicly searchable register of charities.

Other information must be provided each year on registered charities’ annual returns to the Charity commission, and this basic information about the charity is also available on the charity’s entry on the publicly searchable register of charities, providing supporters or members of the public with a quick reference on the charities’ fundamental indicators.
There have been calls from some quarters for additional information about charities to be reported more clearly, such as executive salaries or charities’ expenditure on fundraising or on political activity. However a balance must be struck that provides sufficient information for people to understand the financial position of a charity, its purposes, priorities and activities, whilst not over-burdening charities with onerous reporting requirements. The current accounting requirements are set out in the Charities Statement of Recommended Practice, and the requirements for annual reports are set out in the Charities (Accounts and Reports) Regulations. These recognise that there needs to be a proportionate approach, requiring larger charities to provide more, and more detailed information than smaller charities.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?  
- How can these challenges be overcome?  
- How can best practice and information be shared across the sector?  
- What lessons can be learnt from past mergers or dissolutions of charities?  
- How can charities effectively deliver services and be assured that their work achieves successful outcomes?  
- What are the benefits and challenges of funding for charities being derived from commercial contracts?

Charities face a different challenges to financial sustainability, often depending on the sector in which they work in and their historic mix of funding. It is important to point out that whilst some charities face particularly difficult challenges, the sector as a whole has continued to grow in both number and annual income. According to Charity Commission figures there are over 3,000 more registered charities now than there were in 2010, and total annual income has grown significantly from £54 billion to £71 billion.

In parts of the sector particularly susceptible to economic shocks, the Government has taken action to provide support to help charities make a transition to a more sustainable future. For example, the £20m local sustainability fund is helping over 270 organisations make the structural changes they need to secure their futures.

In relation to mergers the Government (and its predecessors) has put in place measures to encourage and support mergers, or make the process of merger simpler. However, anecdotal evidence suggests that many mergers in the charity sector arise as a result of the financial distress of one of the parties, and that relatively few mergers are strategical driven.

The lessons from dissolutions of charities, again anecdotal, are that serious difficulties are more likely to arise when trustees fail to recognise the charity’s financial position until it is too late. Where trustees have an up-to-date grasp of the charity’s financial circumstances and plan ahead properly, it is usually possible to have a more orderly winding-up, including in some cases making provision for some of the charity’s services to transfer to another charity, or at least identify alternative provision for service-users.
Many charities choose to engage in the delivery of public services, and deliver successful outcomes for their beneficiaries. Supporting civil society’s role in public services is a priority for OCS. We have engaged in an open policy dialogue with charities to explore the scope for government, voluntary sector and public bodies to take action and better enable charities to access public service outcomes.

**Social investment**

8. What is the potential of social investment and social impact bonds?  
- What are barriers to fulfilling their potential?

We responded to this question in our first submission.

**The role of the Government**

9. What should the role of Government be with the sector?  
- What should be the role of local Government?  
- What should be the role of the Charity Commission?  
- Have these relationships changed? If so, how?  
- How should Government (national or local) focus its resource to deliver its civil society agenda?

These questions (other than the role of local Government, which is for local Government to respond to) are addressed in our first submission.

- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?  
- What are the opportunities and challenges associated with local devolution?

Devolution presents a number of opportunities for charities to engage in local priorities.

The OCS has a local intelligence team which is based around the regions of England. Part of their role is to help build stronger links between the charitable sector and local or regional service commissioners and leaders, which has been increasingly important in helping charities to seize the opportunities of devolution.

**Lessons from other sectors and countries**

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

The OCS works closely with colleagues in the Devolved Administrations, on matters of mutual interest. For example in March 2016 the OCS hosted a one-day seminar for colleagues from devolved administrations, focusing on legal and regulatory issues but also presenting an opportunity to discuss different policy approaches and issues around the UK.
The OCS is also keen to learn from experiences further afield, and keeps a close eye on relevant policy developments in other countries (particularly Commonwealth countries which often have similar legal frameworks). The UK Government’s approach to supporting a strong civil society, and our innovative policy approaches such as developing social investment and social impact bonds are recognised as world-leading, and the OCS regularly accommodates visiting delegations from around the world who come to see the policies and approaches that are being taken in the UK. We also use these opportunities to learn from visiting delegations about the approaches they take to tackling similar policy challenges.

22 September 2016
Dear Baroness Pitkeathley,

Thank you for the opportunity to give evidence to the Committee on 6th December. I hope that you found our evidence useful. During the session, Lord Rooker asked a question about charities claiming gift aid on donated goods and I said that I would write to the Committee in response.

Policy responsibility for charity tax exemptions and reliefs rests with HM Treasury, and the exemptions and reliefs are administered by HM Revenue and Customs.

Gift Aid is a tax relief that allows a charity to claim a repayment of the basic rate tax paid by a donor on their donation. Gift Aid applies only to gifts of money but some charities have set up arrangements that enable Gift Aid to be claimed on the money raised from the sale of donated goods. Under such arrangements, the charity agrees to sell the goods on behalf of the donor.

Before the charity can claim Gift Aid on the sale proceeds it must, therefore, ask the donor if they are willing to donate the sale proceeds to the charity. This procedure is not imposed by the Gift Aid scheme itself, but is one that the charities have set up themselves to bring the proceeds on the sale of goods within Gift Aid.

Donors also need to know the amount they have donated both to be sure that they are entitled to Gift Aid that amount (they need to have paid enough tax to cover the Gift Aid the charity will claim) and because they may wish to claim higher rate relief in respect of the donation. Charities are not required to notify donors every time an item is sold, only when they wish to make a claim to a repayment of tax under Gift Aid.

In an effort to cut red tape for the charity retail sector, new and streamlined procedures were introduced which charity shops have been able to use since April 2013. Under these, donors can specify the amount of sales proceeds that may be given to the charity without them needing to be notified of the exact amount raised. Depending on the charity’s circumstances, donors can specify an amount up to £1,000.

I hope this response is helpful to the Committee. If the Committee has any further questions or would like any points clarified, please do not hesitate to get in touch. I look forward to your report in the New Year.

Yours sincerely,
Rob Wilson MP
Department for Culture, Media and Sport

20 December 2016
1. **Background**

**The Scottish Charity Regulator**

The Office of the Scottish Charity Regulator (OSCR) was fully established in 2006 under the **Charities and Trustee Investment (Scotland) Act 2005** (the 2005 Act) as a Non-Ministerial Department forming part of the Scottish Administration. OSCR is the registrar and regulator of over 24,000 charities registered in Scotland. OSCR’s vision is of **charities you can trust and that provide public benefit.**

2. OSCR’s statutory functions are:
   - (a) to determine whether bodies are charities,
   - (b) to keep a public register of charities,
   - (c) to encourage, facilitate and monitor compliance by charities with the provisions of the 2005 Act,
   - (d) to identify and investigate apparent misconduct in the administration of charities and to take remedial action or protective action in relation to such misconduct, and
   - (e) to give information or advice, or to make proposals, to the Scottish Ministers on matters relating to OSCR’s functions.

3. **Our response**

**The Scottish context**

**Q10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?**

4. Our response to this question is based on the insight that comes from our role as charity regulator and from our extensive interaction with the Scottish charity sector.

5. Whilst there are many similarities between charity law in Scotland and England and Wales, there are also a number of specific differences.

6. A key difference is the comprehensive nature of charity regulation in Scotland. **All charities in Scotland feature on the Scottish Charity Register and are actively regulated by OSCR. This is different in England and Wales where there are minimum size thresholds and exempt charities.**
7. The comprehensive nature of the Scottish system helps underpin public trust and confidence, as the public can be assured that all charities are registered and regulated (our online register is searched over 100,000 times each month). It also requires us to ensure that the principle of proportionality is central to the development of our policies and overall approach. We seek to be positive and preventative, targeting our efforts only at cases and activities where action is needed. We are confident that putting these principles at the heart of our work has helped OSCR, as a relatively young regulator, to develop and maintain good relations with the Scottish charity sector. We think that, in general, the sector has a good level of understanding and respect for our approach, and survey evidence supports this view.

8. We put considerable effort and resource into working directly and in partnership with key stakeholders, to raise the standards of governance by charity trustees before problems arise. OSCR’s strategic objectives for 2014-17 reflect this approach:

- Help the public to have more confidence in charities
- Help charity trustees to understand and comply with their legal duties
- Keep registration and reporting straightforward and proportionate
- Continually improve the way we operate and deliver services.

9. OSCR works closely with key partners such as, the Third Sector Interfaces (TSIs), the Scottish Council for Voluntary Organisations (SCVO), Voluntary Action Scotland (VAS) and the Third Sector Unit at Scottish Government, to ensure good practice within the sector is shared. This is an essential part of developing a good understanding of the challenges and opportunities facing Scottish charities.

10. A recent example of this partnership working is the Scottish approach taken on fundraising self-regulation, where Scottish Government, SCVO and OSCR have worked collaboratively with the wider sector to establish a new, proportionate fundraising complaints system for Scotland.

11. We work closely with colleagues at the Charity Commission (CCEW) to ensure that the regulation of Cross-Border charities (those registered with CCEW and OSCR) is both consistent and straightforward and that any burden of dual regulation is eliminated as far as possible. We also work closely with the Charity Commission for Northern Ireland. This is similar to the relationships we have developed with other regulators of charities such as the Scottish Funding Council and the Scottish Housing Regulator where we seek to understand the processes and approaches taken by our co-regulators, avoiding any duplication and focussing on the areas where OSCR has sole regulatory responsibility. Working closely with fellow regulators also allows us to consider trends and issues in other sub-sectors or legal
jurisdictions that may also arise in Scotland and to consider how we might best respond to those.

**Challenges and perception**

Q1. *What is the role and purpose of charities in the civic society?*
Q2. *What are the main pressures faced by charities currently, and what impact have these had?*

12. Charities make an essential contribution to society and the economy. In Scotland, there are 24,000 charities and the income of the Scottish charity sector is around £12.5 billion. As society has developed and changed, so has the operating environment for charities. Over the last decade, changes in the economic climate have resulted in changes to the relationships that charities have with their funders. As public sector expenditure has come under pressure and as competition for limited funds has increased, charities have been required to place an increased reliance on public donations or diversify their income streams.

13. In 2016 we surveyed 1,215 Scottish charities: [OSCR’s 2016 Public and Charities survey](#) (summary at Appendix 1). We found the main concern for charities (both spontaneous and prompted) related to funding, with 56% stating funding or running costs as the most important issue facing their charity (57% in 2014). This is not the only pressure facing charities, with our research also showing that recruitment of volunteers, staff and trustees is an issue facing 16% (15% in 2014), which is a challenge for the good governance and accountability of the sector. When asked what charities have done to address their main concerns, advertising and raising awareness was reported by 25%, followed by looking for funding or donations, with 19%.

14. In the context of the changing environment for charities and the considerable media and public scrutiny experienced over the past 12 months, we are increasingly aware of the role that external factors, such as the media, have on influencing public trust and confidence in charities. The public’s view of what is charitable has been tested, and in some cases the modern charity is quite different from what it had previously been. This presents challenges for both the regulator and charities in taking action that reflects public concerns.

15. Our vision is of *charities you can trust and that provide public benefit*, and so it is important that we understand what is expected of charities, and of the regulator in order to prioritise our regulatory activities. Despite high levels of public and media scrutiny, trust in charities in Scotland remains strong and has decreased only slightly. In our survey of 1,010 Scottish adults, when asked to score trust in charities on a scale of one to ten, the mean score decreased to 6.08 in 2016 from 6.35 in 2014. The percentage rating of trust from six to
ten fell to 64% from 68% in 2014, but was lower in 2011 (61%). When asked if trust had increased, decreased or stayed the same, most reported no difference (54%), while 35% reported a decrease and 8% said trust had increased. Of those reporting a decrease, 54% stated the negative media coverage of charity scandals as a reason.

16. We aim to be a positive, preventative and proportionate regulator and our survey evidence also helps us to understand the factors that increase trust and confidence, with 76% saying knowing how much of the donation goes to the cause would increase trust and 72% seeing evidence of what is achieved (scoring four or five out of five). In addition, 65% said knowing it was fully regulated by an independent body and 60% said having open access to its accounts would increase trust. We also know that awareness of OSCR increases the public trust score (75% scoring trust six out of ten or above if aware and 61% if unaware).

17. Our new focus on targeted regulation builds on this evidence by starting to prioritise regulatory activities that respond to society’s questions about the modern charity and develops an approach that works with charities to advocate good governance, accountability and transparency.

18. Conclusion

OSCR has welcomed the opportunity to provide the committee with this information and look forward to the committee’s findings.

Appendix 1


Charity Survey Summary: Current issues

• Finance continues to be the main concern for most charities.
• It is still very difficult for charities to source donations, most have to work hard for everything they receive.
• Sustaining membership levels has become more of an issue in the last five years and is now as much of an issue as recruitment.
• Charities were focused on fundraising, raising awareness and cost cutting.
• Charities with smaller turnovers found recruiting volunteers and sustaining membership levels more problematic than larger charities, whereas larger charities more often had issues regarding funding and running costs.
• Newly established charities and those with more employees were more likely to struggle with finance.
• As in 2014, charities have sought to offset financial issues through advertising, finding alternative funding sources and additional fundraising.
• Seven in ten charities sought advice through a third party in the last two years.
• Charities with more staff and, also, those with a higher turnover were more likely to have engaged with support organisations.

Public Survey Summary: Conclusions
• Overall, the 2016 wave of the OSCR’s general public research provides a robust confirmation that public attitudes towards charities in Scotland are positive and that Scottish residents, on the whole, continue to trust and engage with charities.
• There are certain, high profile misgivings within the public consciousness, such as high CEO salaries, negative media attention and a perceived lack of transparency, that damage trust in charities.
• The amount the public gives to and engages with charities is connected to the levels of trust it has with them. The importance with which the public perceives OSCR’s role as regulator makes it likely to be central to building such trust.
• OSCR continues to provide the services that the public would expect of it. However, consistently low levels of awareness is potentially a barrier to making progress and building on the link between regulation and trust. The public is reassured by OSCR’s presence once aware.
• If OSCR is able to capture the public’s attention, through promoting transparency and best practice in the sector, public faith in charity and the health of the charity sector itself is likely to benefit.

1 September 2016
Oxfam GB—Written evidence (CHA0113)

About this submission

1. We are grateful to the House of Lords for establishing the Committee and for its call for evidence. This submission was approved by both the Chair of Oxfam’s Trustee Body and the Chief Executive and includes contributions from, and reflects the views of, senior management and trustees. We would be happy to submit further written or oral evidence if the Committee feels this would help their deliberations. Our submission addresses some of the themes raised in the call to evidence but does not address all questions or the questions in the order they were put.

The purpose of charities, recent changes, and the value of volunteers (Q1)

2. The legal definition of charity is based on the concept of public benefit with a number of areas of charitable activity set out in the Charities Act 2011. However, we believe the Cabinet Office Strategy Unit report of 2002 captured the essence of the purpose of charity in the title of their report “Private Action, Public Benefit”.

3. One of the key characteristics of the charity sector is its ability to connect individuals directly to the charity’s work and cause. Another strong characteristic of the sector is its ability to identify new and changing social needs as they arise, to innovate and take risks when seeking innovative solutions to address these needs. Not all charitable endeavours work, not all interventions are effective or sustainable, but at its best the sector is compassionate, public spirited, innovative, creative and entrepreneurial. It seeks to address both immediate need and underlying causes.

4. Examples of these attributes can be seen in our own work. In humanitarian relief work there have been changes from distributing goods to a mix of distribution of goods and cash. This latter enables beneficiaries to meet some of their own individual and family priorities in a way that the distribution of goods alone cannot achieve. Development programmes have evolved to include micro-finance schemes, the promotion of market access for poor producers and small business development. Influencing programmes include work within communities to tackle prejudice and discrimination, research into the barriers which keep people poor, influencing and dialogue in host countries as well as higher profile public campaigning on global issues.

5. We believe that charities acting as a catalyst for change can achieve a greater degree of impact than through service delivery alone. It is therefore of considerable concern that recent messages and actions by policy makers have created new obstacles to this work. The introduction of the Lobbying Act, restrictions on the use of government grants in research work, the publication of additional guidance by the
Charity Commission on Elections and Referendums (later withdrawn and re-worked) have helped to create an atmosphere of uncertainty for charities as to the terms on which this work can be undertaken. While we would expect those policy makers, businesses or others whose work might be affected by our public campaigning to be robust in their critique of our research and proposals for policy change, this wider criticism has gone beyond legitimate challenges to arguments put forward for change to challenging the legitimacy of charity campaigning. The added value of this work needs to be more widely understood, benefits acknowledged and a more supportive regulatory framework created. We support to the recommendation of the Hodgson report on the Lobbying Act and hope the Committee will add their support these recommendations.

Volunteering.

6 Harnessing the energy and enthusiasm of volunteers is one of the distinctive features and contribution of charities. Oxfam takes our relationship with and support for volunteers seriously and we engage volunteers in a wide range of activities.

7 Oxfam shops provide volunteering opportunities for over 20,000 people and are supported by paid staff in the running and management of our network of over 650 shops. In our shops there is a ratio of roughly one paid member of staff to twenty five volunteers. We also employ volunteers in back room and support functions. For example, our shops audit team comprises of 25-30 volunteer shop auditors managed by one paid staff member. We also have volunteers in our finance and administration teams. We invest in training and support for volunteers and also seek to provide volunteering opportunities for those who would otherwise struggle to enter the conventional job market.

8 While we benefit from the time and commitment volunteers provide, the investment in volunteering by charities has not always been fully understood or acknowledged by the Government. A current source of concern is the Government’s Apprentice Levy.

9 The levy applies to all employers with a pay bill of over £3m and is charged at 0.5% of the pay bill over £3m. The levy will apply to Oxfam. The levy is allowable against corporation tax which charities do not pay so the payment for the levy will be made out of charitable funds with no beneficial relief. Some charities, but not all, will employ apprentices, others like Oxfam utilise and invest in the skills of volunteers. We believe there is a strong case for the application of the levy to charities to be reviewed to acknowledge the different approaches taken by the charity sector.

Governance: What skills are required to lead and manage a charity?

10 Strong leadership is essential to the success of the charity sector. The skills required to run a large charity can be at least as complex as the skills needed to run a private or public sector organisation.
In Oxfam leadership means motivating over 20,000 volunteers to support our shops, managing a professional workforce in over 60 countries deliver complex projects on time and to cost, understanding the political and security risks associated working in conflict areas, the ability to communicate complex messages to an increasingly sceptical media and public, as well as the essential ability to convince governments, philanthropists and the general public to financially support the work of the charity. Recruiting able and committed senior staff is a primary function of trustees. Salary packages are part of the recruitment mix.

There has been considerable concern over executive pay within the sector. The public admire the voluntary ethos of charity and rightly expect professional levels of delivery and accountability. This creates a challenging environment in which to develop pay policies which ensure we recruit the best people for the jobs while acknowledging public concerns about the level of remuneration they receive.

In setting levels of CEO and director pay, Oxfam’s Remuneration Committee (which includes trustee and independent members) takes account of the skills and experience required for each of the roles and the remuneration in the sectors from which suitable candidates for such posts would be found. The general aim is to pay senior executive salaries of up to the median level for large UK charities, which in turn would typically be no more than 70% of the base salaries for comparably sized roles in the public and private sectors. In keeping with our values we also consider pay ratios between top, median and bottom in setting our salaries. Oxfam has a top to bottom ration of less than 1:9, compared to a ratio of over 1:100 in leading FTSE companies.

While Oxfam publishes data about our pay policy and executive pay in our annual report and accounts we, and the sector, need to do more to explain the benefits of the professional/volunteer mix in charities and the contribution both paid staff and volunteers make to the delivery of mission. There is a need for greater debate within the sector and with regulators over the role of benchmarking ratios across a range of charitable work whether relating to fundraising costs, “overheads” or executive pay. The outcome of this should be greater transparency, standardisation and consistency across the sector taking into account the different contexts within which the sector operates. In this we need more support and “championing” by sector representative bodies, the Charity Commission and from within government.

Governance and Leadership – getting the balance right

We believe the leadership of Oxfam and the custody of its values is the joint responsibility of trustees and senior staff. Trustees have the final authority but management are responsible for the day to day running of the charity and therefore share this responsibility with trustees. Management also have the time and management tools to make it happen. However, in recently years the regulatory focus has been exclusively on the role of the trustees. We believe this does not reflect the reality of the trustee/executive relationship. Getting the focus wrong
may well lead to a reduction in the number of individuals prepared to put themselves forward for this important public role.

16  The Charity Commission have made it clear in recent articles and advisory notes that “the buck always stops with them [trustees]”\(^{406}\). While this reflects the legal principle with regard to trustee responsibility for charitable assets, there is a danger that if the role of a trustee is made too onerous, and the personal consequences of public criticism or regulatory action too damaging, then appropriately qualified individuals will simply not put themselves forward for trustee positions, and something of great value will be lost to public life. We believe that this narrow legalistic approach must be tempered by a more proportionate and realistic approach by the regulator to the reality of the trustee/executive relationship.

17  In other guidance published by the Charity Commission the standard applied to trustee oversight of the executive and control framework is that of “reasonable steps”\(^{407}\). We believe that trusteeship could be strengthened and encouraged if there was greater clarity as to what “reasonable steps” on the part of the trustee Board means. This would seem to us to be a proportionate approach to governance and offer some protection and encouragement to trustees.

18  This is not to absolve trustees of responsibility for setting the tone, style and ethos of charity or their obligation to establish an appropriate control framework. To achieve this they need support not only from professional staff and advisors but also from regulators and representative bodies. Strategic decisions by government over funding and the Charity Commission as a matter of strategy have reduced the availability of this support.

Public confidence

19  As noted above, a characteristic of the charity sector is its ability to create a connection between the public and the cause the charity represents. This is particularly important when fundraising. The public want an opportunity to support good causes, as can be evidenced through the generosity of the public in its support of charitable causes and the success of high profile appeals. We have to make sure that when the public is provided with opportunities to support this is done in a way that is responsible and respectful. Oxfam is proud of the support it receives from the public and the loyalty and commitment of our long term donors, many of whom have supported the charity over many decades, and of the work undertaken as a result of this relationship and the funds raised. In general we want to be and are indeed proud of our fundraising and the connection we have with our supporters. There have been well publicised occasions where we have fallen short of our high standards. In these cases we have quickly apologised, taken remedial action, strengthened governance and management oversight of processes and worked closely and transparently with regulatory bodies.

\(^{406}\) William Shawcross, Financial Times August 2015.

\(^{407}\) CCs “The Essential Trustee” p20
There has been a lot of focus on the need for the sector to become more transparent and publish more data about its performance. We do not believe that more performance data alone will address the anxieties felt by the public as reflected in various opinion polls. Improving and strengthening transparency in the sector is important but we also need to tell our story more effectively to build on the connections between our donors and beneficiaries. Individual charities can do more to promote their own success and networks, but celebrating the success of the sector requires strong leadership from the government and regulators (see below).

In view of some of the expressions of concern about large charities we could probably also do more to communicate the benefits that come with the size and reach of charities such as Oxfam. For example, the benefit of having established infrastructure around the world is the ability to respond to emergencies and crises in fragile states quickly. This infrastructure, our emergency response planning and experience of delivery also gives us leverage in influencing other agencies and governments, including host governments and UN agencies with whom we work. We could also do more to explain how decisions are made about how we prioritise our programmes and strategic decision making.

Financial viability

There are a great many challenges to ensuring financial sustainability. Oxfam’s approach is to maintaining a diverse range of funding streams. This is essential if Oxfam is to maintain its global reach, its ability to scale up in response to emergencies, remain independent and innovate.

For example, Oxfam’s growth in recent years has been driven by an increase in “restricted” funds (funds whose use is restricted for a particular purpose or appeal) mainly from institutional donors but also from public appeals. However, much of the core cost of maintaining Oxfam’s infrastructure in the UK and overseas, and our ability to innovate in programmes, is dependent on “unrestricted” income i.e. funds raised without any restriction to their use.

One specific concern we have is that contracts for restricted funds do not always enable, or allow for, full cost recovery. We note that the Charity Finance Group and Association of Charitable Foundations made strong points to the Committee with regard to improving cost recovery for charities in their evidence, which we support.

The introduction by DFID of performance related funding and competitive tendering is understandable given concerns raised with regard to aid effectiveness and value for money. We have positive experience of performance related funding which can work provided the performance indicators are relevant to the needs of the beneficiaries and the charity has the necessary skills to implement the contracts. There are residual concerns that pressure to develop performance related funding may lead to the application of inappropriate indicators which in turn may lead to
some of the poorest and most difficult to reach communities missing out on the vital support they need.

**Accountability, effectiveness and resource management**

26 To improve accountability, trustees have adopted safeguarding, complaints and whistle blowing policies, and have established internal audit and counter fraud teams who report to the Trustee Audit and Finance Group and who also produce annual reports for the Board. The Board have also established “lead trustees” whose role is to focus on a specific area of work within Oxfam and build up a detailed understanding of how staff approach their work.

27 We engage with the Charity Commission on these issues and look forward to supporting them and the sector develop and adopt best practice standards across a range of activities. The Commission should be resourced and encouraged to take a lead in this work to generate benchmarks for charities relevant to their areas of activity.

28 Along the evaluations carried by out institutional donors and our external auditors we have also established a Monitoring, Evaluation, Accountability and Learning team which undertakes evaluations and impact assessments of our programmes. The team publish internal and external guidance and lessons learned to help improve professional performance.

**Regulation – Role of Government and Charity Commission Q9**

29 The Charity Commission’s statutory objectives include, as a first objective, “the public confidence objective” which is to increase public trust and confidence in charities. As a matter of strategy the Commission has reduced its support function for charities and shifted its focus on regulation and compliance. While the Commission does support the sector through technical measures such as making “schemes” the Commission could also so more to fulfil their statutory obligation to promote the success of the sector.

30 This strategic shift appears to be supported by Government how have granted the Commission additional powers, including the powers to issue warnings.

31 This focus on compliance, regulation and enforcement appears to be in part a consequence of the severe budget cuts suffered by the Commission in recent years but it also reflects the priorities of the Board of Commissioners.

32 The Commission does though have a statutory obligation to promote public trust in charities and we believe that this is as much about demonstrating the beneficial contribution charities make as it is about reassuring the public that we are compliant with regulation. We would be keen to support their lead in undertaking this task.
Likewise, within government the voice of the charity sector seems diminished. Many of the sector umbrella groups have had cuts in their funding and struggle to fulfil this role. While government appears to still want charities to provide a wide range of service delivery functions across a number of sectors there seems little appetite to engage in dialogue with the sector on how they can do this in a sustainable way or to promote and protect the space that charities occupy both in the UK and overseas.

5 September 2016
Submission to be found under Elizabeth Green
About the Paul Hamlyn Foundation

1. The Paul Hamlyn Foundation (‘PHF’) is one of the largest independent grant-making foundations in the UK. Our mission is to help people overcome disadvantage and lack of opportunity, so that they can realise their potential and enjoy fulfilling and creative lives. To deliver this mission we make grants to a diverse range of organisations and individuals. We have a particular interest in supporting young people and a strong belief in the importance of the arts.

Evidence and observations

2. Below are observations relating to research and activities, which may be relevant to the Committee’s inquiry, including a synthesis of an earlier consultation we conducted as part of our own strategic review. These observations primarily address issues pertinent to questions 1 - 3 (the purpose of charities, the pressures and opportunities they face and their capacity for innovation).

3. As part of a consortium of charitable funders PHF has supported an independent inquiry into the future of civil society, which is due to report on its first phase in January 2018. To date £500,000 has been committed by a range of funders including the Baring Foundation, Barrow Cadbury Trust, Lankelly Chase, Calouste Gulbenkian UK, Esmée Fairbairn Foundation, Lloyds Bank Foundation and PHF. Julia Unwin CBE, will chair the Inquiry, bringing a wealth of experience to the role including her nearly 10 years as Chief Executive of the Joseph Rowntree Foundation.

4. This independent inquiry aims to provide a clear vision for the role of civil society in England over the next decade and address the changing nature of civil society in the current environment and its prospects going forward. The findings of this independent inquiry will be relevant to the Committee’s interest in the purpose and role of charities, the changing context in which they work, and the challenges they face. Further details can be found on the baring foundation website at http://baringfoundation.org.uk/inquiry-into-the-future-of-civil-society-invitation-to-tender-to-provide-the-secretariat/.

5. As part of PHF’s 2013/14 strategy review we put out an open call for input from individuals and organisations working in the fields in which we are active. The full report on the consultation exercise is provided at attachment 1[held by Committee staff and available on request]. Some relevant responses are, in summary:

a. The need for more effective support for leaders in the charities sector. A consistent theme was the suggestion to invest in leadership and back individuals. Suggestions included giving grants to existing sector leaders to allow them to further develop their organisations’ work (unencumbered by specific project or outcome-based funding) and to develop new funding programmes which identify, nurture and support young or less well-established artists, creative producers/thinkers and future sector leaders. Several saw this as a highly strategic use of funding.
b. **Innovation** and **organisation and sector sustainability** were two recurrent and closely connected themes in responses. Some strong and divergent views were expressed. Many respondents recognised and valued funder focus on innovation, with some proposing an even stronger focus on supporting novel, experimental or risky work; however, several others emphasised the importance of prioritising **organisation and sector sustainability**, either in addition to or in preference to innovation. Current financial and policy climates, as well as willingness to fund organisational core costs were frequently mentioned in responses containing these latter views. Some respondents took a strong line on funders emphasising innovation too much, arguing that it can be to the detriment of ‘particularly’ smaller organisations, for whom constant pressure to devise new ideas, plan and fundraise for them presented a drain on resources and detracted from their core mission.

c. Our own consultation, as well as other research supported by our peers, highlights the specific **challenges facing small and medium sized charities**. The Committee may also wish to note the findings of two independent research projects commissioned by the Lloyds Bank Foundation, which detail the challenges facing small and medium sized charities in England and Wales since 2008. The Lloyds Bank Foundation’s briefing on this research is provided at **attachment 2**. The research found that smaller charities lost a higher proportion of their income than larger organisations following the recession, have more volatile finances and are disproportionately affected by the shift towards competitive commissioning. These same organisations, however, make a unique contribution given their ability to be more responsive and flexible to address changing need as well as the increased likelihood that they will be embedded in - and connected to - their community.

6. **We believe that providing core funding for organisations — rather than necessitating a short term focus that is so often demanded by the current funding environment — creates valuable space for charities to focus on their longer term strategy and sustainability.** This need for core funding was expressed in the above mentioned consultation exercise as well as in independent, anonymous grantee perception reports conducted by the Center for Effective Philanthropy on behalf of PHF. These reports captured the views of 312 PHF grantees in 2013 and 253 during 2009. The report of their findings is provided at **attachment 3**.

7. The need for core support also manifested in the demand we have seen for our Youth Fund since it was launched in August 2015. The Youth Fund provides a maximum grant of £60,000 over two years towards core organisational costs and aims to enable organisations with innovative and influential ideas or outstanding practice to sustain and prepare to grow their impact. In 2015-16 we received more than 400 applications for the Youth Fund, totalling requests of £22 million. Ultimately £1.1 million was awarded, meaning success rates were approximately 6%.

8. In February 2016 the Charity Commission published new guidance regarding grant funding for non-charities (further details located at [https://www.gov.uk/guidance/draft-guidance-grant-funding-an-organisation-that-isnt-a-charity](https://www.gov.uk/guidance/draft-guidance-grant-funding-an-organisation-that-isnt-a-charity)). This definition may apply to
organisations such as social enterprises that, though carrying out valuable work and delivering on valid charitable objectives, also generate a profit or undertake other activities. Importantly, although the new guidelines purport not to be a regulatory change, their effect has been to introduce tighter restrictions for funders as they decide which organisations and what work to support. The new guidance also makes it more burdensome to make grants for core funding to non-charities: the (complex) guidelines effectively make project (rather than core) funding the only option. The Inquiry may wish to review these guidelines and their ramifications for the provision of much needed core funding.

9. PHF has also sought to support the broader organisational development needs of charities. Our Fitter for Purpose (‘FfP’) programme is one example of this and the final report on it is provided at attachment 4 [held by Committee staff and available on request]. It highlights the importance of supporting charities to be ‘fitter for purpose’, rather than just helping them to survive. The FfP programme aimed to support 30 Paul Hamlyn Foundation (PHF) grantee organisations to become more resilient in the context of the recession and public sector cuts. The programme was funded by PHF and delivered by the National Council for Voluntary Organisations (‘NCVO’) starting in September 2012.

10. The programme provided a focus, built confidence and in many cases acted as a catalyst for change. The project documentation and the grantee survey responses indicate that the main organisational outcomes were:
   • increased clarity and agreement around strategy and direction;
   • greater understanding of approaches to developing financial sustainability;
   • stronger governance arrangements;
   • increased understanding of their organisation’s impact and improvements in the ability to evidence it; and
   • greater confidence in pursuing organisational development activities and communicating their work.

11. In addition, a smaller number of grantees were supported in:
   • evolving or changing their organisational structures;
   • delivery of a specific project or output; and
   • communications and marketing work.

12. In the online survey following the programme, grantee project leads were asked about the extent to which FfP met their organisation’s needs. The response was broadly positive: out of 27 respondents, 23 (85%) “strongly agreed” that the issue FfP worked on was “very important to the future of our organisation”, and the remaining 4 (15%) “somewhat agreed”. Evidence from the six-month reviews suggests that almost all of the grantees had continued the work started during the programme, further demonstrating that grantees felt the issues were important.

2 September 2016
Talwrn is an alliance of twelve diverse voluntary sector organisations with their own individual purposes but which all support disadvantaged people in Wales. Talwrn members challenge each other, provide support and advice, develop new collaborative work, enable learning and, through sharing that learning, seek to inform the voluntary sector as a whole.

Summary

- Community cohesion needs to come from within – it can be nurtured and supported, but not procreated, by outsiders going into a community.
- Resourcing support for community development needs to recognise how long it takes, and the characteristics of a cohesive community.
- The way charities are supported is often target and resource (funding) driven, which can result in ‘mission drift’ - and a move away from the need to listen to, involve and understand the people and communities they support.
- Support and challenge for charities needs to become more sophisticated, moving away from measuring and accounting (management processes) to critical review and reflective analysis (development processes) i.e. less focus on what we do than on the difference we make.
- The Welsh policy context provides opportunities for innovation but leaving the EU, austerity cuts and local government re-organisation in Wales all create uncertainty.

1. The purpose of charities: key points on charities’ role in communities

1.1 A charity’s role in civic society will be defined by its purpose, which may include supporting community development, developing activism, tackling or alleviating poverty or building cultural strength. Common to all should be a way of working that is independent. During the twentieth century charities adapted as the State took on many of their traditional roles. As the State now moves away from non-statutory interventions, charities will need to change again but it would be wrong for them to just pick up what the State is walking away from, even if they had the resources to do so. The challenge, and opportunity, is to do things differently and better.

1.2 Talwrn’s view is that charities need to approach the challenges and opportunities of the twenty-first century with optimism and innovation. Charities were at the heart of the paternalism of the nineteenth century, promoted a rights based approach in the twentieth and now some are in the vanguard of developing the models for person centred, co-produced structures that share control and power with people and communities. While for some, this is a shift in function, it is rarely a change of purpose. However, we would argue that what many charities currently do is not always distinctive.
from what other sectors do. This is less a failing in charitable structure, than in managing the balance between survival and staying true to a charitable purpose.

1.3 Charities and community cohesion: It is not safe to assume that because an organisation is a charity it has an understanding of community development. A charity can be very effective in developing community cohesion and civic action, but only if it works with the community and with other local groups important to the community. There have been some unhelpful examples of larger charities getting national contracts, ‘parachuting’ into communities and derailing local community activity in order to capture their targets. Charities can be very effective in supporting community cohesion:
- when they are part of a community and provide long-term continuity; robust relationships with people and groups that stand the test of time; and an ‘enabling’ function that builds on community assets, supports communities to come together and to take collective community action; and/or
- when they work alongside communities, offering opportunities to identify and fill gaps (such as skills), getting involved in protecting or preserving what is important to people (such as the environment or the arts), and/or offering support for those within communities that struggle to cope (such as carers).

1.4 Funding regimes have had the (unintended?) effect of limiting community development at a local level by introducing competitive ‘target driven’, time limited approaches which work against community led work or collaborative approaches. This is particularly true when charities shape their approach to the funding, withdrawing when the funding ends and creating cynicism in communities. Contracting, in particular, often focuses on defining very specific tasks and outputs, leaving charitable organisations unable to respond creatively to needs and, in effect, becoming an arm of a public service. Contracts should be developed with people and communities who receive services, and be flexible enough to allow creativity and innovation.

2. Pressures and opportunities

2.1 Leaving the European Union is a key unknown for charities in Wales. Wales has long been a net beneficiary of the UK’s EU membership and many charities have received funding from European programmes for their work. The EU has also provided an ethical framework around equalities and environmental sustainability for work in Wales and the impact of the changes to come in these areas are also unknown. As in England, decisions about how European money would be spent were taken in Wales, so we would not expect major policy changes. However, there is concern about the deliverability of the promises, made during the lead up to the Referendum, that Wales would not lose out financially.
2.2 Given that there will be radical change (albeit we do not know when), that relates not just to the EU but also to the impacts of austerity on Welsh society and proposed local government reorganisation, there is an opportunity for charities to be involved in shaping thinking about the future of Wales. However, charities are rarely considered as contributors to such debates beyond their role in delivering public policy and, amongst public sector agencies, there is a default towards the larger, national charities which have all the structures and policies the public sector looks for, but which may not have insights into the changes needed locally or regionally. For example, there is an increasing policy interest in locality based work but a lack of confidence in locally based charities to deliver on it. Charities have some responsibility for this situation, where they have slipped into ‘delivery’ mode, thinking more about what they are paid to deliver than what people need and so offering little in new ideas or practices. We urgently need structures that encourage charities to reflect and learn from their work and feed this learning into future planning.

2.3 The impact of austerity is greatest on the poorest and most marginalized. These are the groups that most charities were set-up to support. There are additional challenges from societal changes including immigration and an ageing population. As a ‘double whammy’ another impact of austerity is to erode the ability of charities to meet these increasing demands by cutting resources they can access.

3. Innovation

3.1 There is a wide range of charities from multi-nationals to local, community based groups, and innovation will be radically different for each. A positive impact of diminishing resources can be to encourage charities to work much more effectively in partnership. Within Talwrn there are examples of charities seeking to work with others to share administrative functions; to provide people with a wider range of, and better quality, opportunities, and earning income through internet sales.

3.2 Inevitably funders have a role in shaping innovation through what they choose to fund but charities need to take the initiative, rather than wait for innovation to be imposed. The charity support infrastructure (national and county based) should be stimulating innovation to respond to people and communities, to help build capacity, to support cohesion and community action, but is, arguably, too embedded in existing practices and not yet ready to change. A focus on building the capacity of national and county voluntary sector support bodies to support innovation would be helpful.

4. Governance and leadership
4.1 Leadership happens throughout a good charity, amongst volunteers, workers and managers. There are many programmes that set out to promote positive leadership in organisations, and charities can access these but the approach needs to be holistic. Developing a positive approach to leadership requires cultural change – most of us still function most comfortably in hierarchical structures, but this change is necessary to enable person, or community, centred work.

4.2 Much of the provision aimed at promoting good governance of charities focuses on controls – whether of finance, staff, or contract work. Whilst controls are important, they are not, of themselves, sufficient to deliver a charity’s purpose. There is a need for a greater focus on developing critical thinking, reflective skills and ethical frameworks within charities. Talwrn is addressing this collaboratively, with organisations working together to develop thinking and skills. Training for trustees, in our view, places insufficient focus the crucial role they play as the protectors of the charity’s aims and objects. Managers can easily become distracted by the need to secure income, preserve jobs and meet funders’ requirements. Trustees need to be able to stand back from this to champion the core role and purpose of the charity. They need to act as a ‘critical friend’, questioning directions being proposed, outcomes being measured and successes being valued.

4.3 How this happens, and the complexity of the task, will differ according to the size and function of the charity and the expectations of trustees must be proportionate. Trustees of a local community regeneration charity that has only one or two employees will, arguably, be much more ‘in touch’ with the charity’s purpose than those of a major national charity working in multiple areas and with a staff of hundreds. The latter can easily find their meetings dominated by their legal accountability role unless specific efforts are made to focus on the charity’s role and purpose.

4.4 It is not helpful for funders, especially the public sector, to try to ‘manage’ charities by imposing requirements. This can divert a charity from a focus on its core aims and purpose and lead to an imbalance in its work. It is better to strengthen charity governance from within than to impose an external ‘compliance’ structure. There should be a much greater interest in supporting trustee development for smaller charities.

5. Accountability

5.1 Charities are very financially accountable to their funders. Fraud does happen but it is very rare and there is a danger of over-reaction from the public sector and media when it happens. However, there is arguably less accountability to beneficiaries and the general public. At a community level there can be a lack of honesty about what is being done and why, especially where needs are being identified externally and decisions have been
made about the work before any conversation has been had with the community, which frequently happens.

5.2 However, with no spare resources it can be very difficult for a charity to genuinely involve the people they want to work with in co-planning their work. It takes time to involve people, and funding that both financially supports, and expects, that involvement is important. Some charitable trusts and foundations are taking the lead in promoting this approach, encouraging and funding applicants to spend time with the community listening before developing proposals that build on local assets to address local needs. The Charity Commission is now mainly concerned with legal issues with larger charities. There is room for infrastructure organisations to potentially fill a gap in provision of low level charitable support, advice and oversight of the sector locally.

6. Resource management

6.1 Too many charities in Wales have relied on public sector funding for their work, and even allowed the public sector and its funding to shape what they do. As austerity hits public services (and it is doing so more slowly in Wales than England) these charities are struggling financially and poorly placed to develop their approach. Proportionately little charitable trust and foundation funding comes into Wales and Wales also has few large businesses making sponsorship a rare thing. So charities need to re-think their situation: some could become social enterprises, some could merge or collaborate on their work, and some could re-focus their work and become stronger, if leaner.

6.2 However, survival for survival’s sake, to preserve jobs or maintain a brand, makes little sense. Talwrn’s experience is that different types of organisations working together are more effective than trying to develop ‘sectoral’ sharing e.g. rather than getting all health related charities to work together, there is greater scope in health, carers, employment and education based charities cooperating to meet needs in an area. There is an opportunity to achieve this through the new policy framework in Wales, particularly the ‘Social Services and Wellbeing’ and ‘Future Generations’ Acts, which propose a much more collaborative and coproductive approach to building the capacity of citizens and communities and supporting place based community programmes.

7. Social investment

7.1 Our experience in Wales is that social investment funding has been derived from existing sources and can be hidebound by rules and regulations which prevent the innovation that the programmes are designed to bring about. There is potential for social impact bonds and social investment, but these must be accessible and not place all the risk on
charitable organisations. They must be focussed on pioneering new ways of thinking and working with communities and of measuring impact.

8. The role of the Government

8.1 As noted above, significant cultural change is needed to bring communities and the services that work with them closer together. It will not work for the public sector to simply ‘hand over’ aspects of their role to charities – if these services were not financially viable for a local authority to provide, it is unrealistic to assume that a charity would be able to sustain them. Therefore, we need to do things differently and charities should be focussed on modelling how.

8.2 The public sector (local and national government, health authorities, the police) need a new kind of relationship with the voluntary sector that is far more of an equal partnership than the current hierarchical one (where public services set policy and look to charities to deliver it). There is the potential within the policy framework in Wales for a much richer and more equal civil society, with the role of local government and other bodies as facilitators, and the community and voluntary sector and charities taking a leading role in transforming community cohesion and activity by building on the assets and aspirations of local communities. At present, in Wales, there is still a strong culture of control and thinking government knows best and a stress on the deficits and problems within people and communities, which harms society. We need to demonstrate that everyone has something to give and is of value, and how to connect people, associations and institutions on a level playing field to develop a more cohesive and active society.

8.3 There are some lessons to be learned from the Welsh experience of devolution. Many large charities have their headquarters in London and Welsh branches or divisions of these charities have been largely disenfranchised from the core resources these charities accrue, especially from corporate sponsorship. They may carry the ‘parent’ charity name but have been ‘floated off’ as a financially independent body, and very much a poor relation. People assume that they are wealthy, given the UK profile of the ‘parent’, disadvantaging them in fundraising without giving them the financial security of a large charity.

9. Lessons from other sectors and countries

9.1 Scotland has traditionally has a robust and well-resourced voluntary and community sector with strong infrastructure organisations. The Policy Framework has for some time expressed and facilitated the value and importance of an engaged and active community and voluntary sector that has a pivotal role in supporting people and communities at all levels; and valuing the diversity and different strengths of working collaboratively.
31 August 2016
5. **About the People’s Postcode Lottery**

5.1 People’s Postcode Lottery is a not for commercial gain charity fundraiser and operates with the sole purpose of raising funds for local, national and international good causes. We operate charity lotteries on behalf of charitable trusts and individual charities. These include 16 charitable trusts and eight well known UK charities. The charitable trusts support over 60 medium and large charities, as well as thousands of smaller charities and local community organisations. We are an External Lottery Manager with both remote and non-remote licences from the Gambling Commission.

5.2 Since we launched 11 years ago, our players have raised over £135 million for more than 2,000 good causes. A minimum of 30% of the ticket price goes directly to charities, well above the 20% required by law.

5.3 In partnership with our sister lotteries in The Netherlands and Sweden we were the third largest private charity donor worldwide in 2015, according to research by the Centre for Philanthropic Studies at Vrije University Amsterdam.

5.4 Every day our staff work with a broad range of charities and this gives us a valuable insight into the work of the UK’s charities as well as the challenges they face.

6. **Response to questions posed by the inquiry.**

6.1 We do not have input on every question listed in the Call for Evidence but have instead limited our response to the key questions where we have relevant input.

7. **Response to Question 2 on ‘Pressures and opportunities’**.

3.1 The main pressures we are aware of include

- Charities having to step in to deliver services previously delivered by the public sector, or because of changes in public sector funding.
- That this has happened at the same time as there is less charity funding available to deliver these services.
- The potential impact of Brexit, especially in terms of access to EU funds, but also how it could impact on issues such as environmental co-operation.
- Increased requirements from funders, and the cost of servicing that.
- Media scrutiny and its impact. For example there is a concern that the bad practice of some charities, (a very small number in relation to the number of
People’s Postcode Lottery — Written evidence (CHA0099)

charities in the UK) could impact on the public’s trust in charities, which could have a corresponding knock-on effect on funding.

- There is also some perception that because services are delivered by charities they can be delivered cheaply, which is not necessarily the case. For example to secure the correct staff to carry out their work charities need to remain relatively competitive, in respect of salaries, to the public and private sectors.
- Most funding provided to charities isn’t long term, thus reducing efficiencies and increasing uncertainty.
- Most funding provided to charities is project specific, which has a yo-yo effect on charity income, is less sustainable and ignores essential core costs.
- Funding uncertainty, including from Brexit, has understandably led to charities building financial reserves, but this reduces funds available for charitable needs, and can also impact on funding opportunities.

3.2 In terms of opportunities one opportunity would be for government to deregulate society lotteries to reduce costs and increase the funds going to charities and good causes – as mentioned in paragraph 6.3 below.

8. Answer to Question 5 on the role of trustees.

4.1 Trustees should set the strategic direction with their senior operational team and agree key performance indicators and desired outcomes. The operational delivery should be entrusted to the team and the trustees should hold them accountable to those deliverables.

4.2 If there is a clear scheme of delegation this ensures clarity, but the new Fundraising Regulator has muddied the water between operation and strategy, with trustees needing more knowledge of the operation of the charity.

9. Answer to Question 6 on accountability.

9.1 Transparency is crucial but the lag in reporting financially can distort the real time picture.

9.2 There also needs to be more understanding that what you get from charities relates to what you put in, and thus comes back to investing in talent. For example, salaries have become an issue because the abilities that are required are not always recognised.

10. Answer to Question 7 on Resource management.

10.1 Many of the charities we work with have lost income because of cuts in public sector funding.

10.2 Brexit could potentially further impact on charitable income. For example NCVO have estimated that in 2013/14 charities received £308 million in direct funding from the EU.

10.3 One of the ways Parliament and Government can increase funds to charities is to deregulate the charity lottery sector, which People’s Postcode Lottery,
alongside others such as the Lotteries Council and the Institute of Fundraising, have been calling for, for several years.

10.4 At present the 2005 Gambling Act imposes limits on the amount that can be raised by any charity lottery in a single year and from a single draw.

10.5 By raising these limits administration costs would be reduced allowing more funds to go to charity. In addition the fundraising model would become less complex and thus more transparent.

10.6 According to the latest Gambling Commission statistics the funds raised for good causes by the National Lottery have continued to increase alongside an increase in the funds raised by charity lotteries, illustrating how the two types of lottery fundraising for charities complement each other.

11. **Answer to Question 9 on the Role of Government.**

11.1 The Government should not see the charitable sector as a delivery agent for essential services. It should be about partnership development to ensure greater efficiencies of services across agencies and civil society.

11.2 The Government should raise the limits on charitable fundraising by charity lotteries, as stated in answer to question 7.

*5 September 2016*
1. **Context: Pilotlight and contributing charities**

2. Pilotlight is a charity that works with small and medium-sized charities, harnessing the skills of volunteer senior leaders from the business sector to make the organisations more effective. This response is prepared on the basis of Pilotlight’s experience of having worked with over 500 charities and social enterprises and over 1000 business volunteers since 2003. To formulate the document, we also asked for the thoughts of a selection of our partner charities. The responses we received reflected a wide spread across England and Wales, as well as a broad selection of types of charities.

3. We feel this submission is important as it will give a voice in the committee’s report to the smaller charities which might not otherwise have resource to dedicate to responding. Those charities who were willing to have their name used are as follows, alongside their areas of work and location:

   a. Green Light Trust – woodland and community, near Bury St Edmonds, Suffolk
   b. Henna Asian Women’s Group – services for Asian women, Camden, London
   c. Hope Support Services – young people and bereavement, Ross-on-Wye, Herefordshire
   d. Horden Youth & Community Centre – young people and community, Horden, County Durham
   e. Jigsaw4u – children and trauma, Merton, London
   f. Methodist Action North West – vulnerable people and community, Preston, Lancashire
   g. Nottingham & Nottinghamshire Refugee Forum – migrant services, Nottingham, Nottinghamshire
   h. People & Work Unit – employment, Cardiff
   i. Remap – disability, Kemsing, Kent
   j. The Queen’s Nursing Institute – healthcare, Central London
   k. The Wellspring Stockport – homelessness, Stockport, Greater Manchester

Figure 2: Location of contributing charities
4. Pilotlight itself works with a broad range of charities, with the fields of work of those which completed projects in 2015 shown in figure 2.

5. Nominally, charities engaging with Pilotlight have a turnover of under £5M; the median annual turnover of charities completing the Programme in 2015 was £392,000. Pilotlight has an office in London serving charities in England and Wales and another in Edinburgh serving those in Scotland.

6. (Q1) What is the role and purpose of charities in civic society in England and Wales?

7. Two key themes emerged from our consultation with our partner charities: firstly, charities exist to fill the gaps in our society and serve people in need; secondly, charities ought to combat inequality and tackle social problems.

8. Identifying and raising awareness of gaps in society was seen as important, ensuring that charities are meeting a need – often one which is not able to be met by the government. The grassroots aspect of smaller charities is also crucial: by having intimate access to those on the ground, charities can be responsive to their needs and also give a voice to their concerns. One charity commented that “we also see our charity’s role as not just looking at ‘minding the gaps’, but more and more at how we ‘bridge the gaps’, allowing someone in need to pass from a place of need to a place of independence”.

9. Under the latter, detail points include combating social isolation and promoting community cohesion. “Charities are needed within communities to help bring down barriers and sustain disadvantaged individuals to access mainstream services.”

10. Charities are increasingly playing a role in community cohesion and civic action. Organisations Pilotlight has worked with – such as SLYNCS in Blackburn and RECLAIM in Manchester – focus their energies on young people in order to build a new generation of socially active young people from across a range of ethnicities, religions and social classes. Charitable organisations, particularly those with a local focus, tend to more easily inspire the trust and confidence of people who would not typically engage with many statutory services, making them the perfect forum to build links and also be a source of information on society.

11. In addition to the beneficiaries themselves, the impact of volunteering opportunities on a community should not be underestimated. While the many paid staff who work for charities are crucial to the success of the sector, volunteers are often considered the heart of what is still known as the voluntary sector. In 2012–13, 29% of adults in England reported volunteering at least once a month and almost half at least once per year. Volunteering is still an integral part of many communities.

12. The status of volunteers, however, has changed in the 21st century. While previously considered something primarily engaged in by older adults, Pilotlight partner Volunteer
Centre Sutton (VCS) reports that 19–25 year olds are the fast growing group of volunteers for the first time. This may be driven by an environment which allows for increased flexibility and digital engagement with volunteering. Time banking sites such as www.do-it.org demonstrates the breadth of opportunities to give to communities and allows for it to fit to the time and geographical constraints of individuals.

13. There are various challenges for charities in fulfilling their role in civic society. The landscape has become very competitive as the number of charities increases and, although the differences extant in the sector are to be praised, it remains true that smaller charities often struggle due to the ability of larger organisations to more effectively compete for tenders regardless of their ability to deliver; this results in a de-emphasis on the local community aspect that many charities hold dear, not only as part of their own identity but as an important advantage in being able to be responsive to need.

14. These challenges can be overcome by increasing access to skills and infrastructure resources to allow small and medium-sized charities to deliver to the fullest of their capacity. Organisations such as Pilotlight give access to the type of business skills required to remain sustainable in an increasingly difficult environment; further opportunities can be provided with publically backed schemes to ensure such organisations have access to operational skills and resources to maximise reach and capacity.

15. (Q2) What are the main pressures faced by charities currently, and what impact have these had?

16. Every charity we consulted highlighted their primary pressures as being financial, and this is consistent with our experience across the breadth of our partner charities. The impact of austerity policy on a local and national level has led to a loss of local funding, with local government grants having dropped by over 50% between 2009 and 2012.

17. More specifically, several respondents noted that funders of all types tend to undervalue the importance of providing core cost support to charities. Grant funders are now distributing a similar amount of money to a greater number of organisations; this is in part due to the reduction in public funding and the necessity for charities to seek alternative methods to raise money to deliver the same important services.

18. The impact of this varies from organisation to organisation. One charity highlighted that the lack of core support “has an impact of not allowing the organisation to build strong reserves and promote a long-term strategy for development and meeting need”. A common theme amongst many charities we work with is the vicious circle of insufficient core funding: to raise unrestricted funds, it is necessary to dedicate resource to the pursuit; to dedicate this resource, it is necessary to have sufficient funds.

19. Public and charitable funders are also seeking a greater level of impact reporting; while the principle is welcomed, this creates an additional burden on already stretched charities. One highlighted that the “increasing complexity of compliance demands […] comes with a cost we cannot recoup”.

20. These challenges are exacerbated for charities which are small or medium-sized. Not only are they having to make adjustments in this new financial landscape, but they are often having to do so without the vein of unrestricted funding which many larger charities have available due to effective and large-scale individual giving efforts. Those charities which
receive close to 100% of their funding through government or grant sources are finding this pressure particularly telling.

21. A charity that works with a particular ethnic and gender group also highlighted a specific pressure: “Funders want to provide funds to charities that work with a spectrum of beneficiaries. This process helps funders provide more to a variety of users but specific charities are at high risk of closing down due to not being recognised as a needed service due to serving a specific group.”

22. (Q3) How do charities seek to innovate, particularly in the digital arena?

23. Our experience is that small and medium-sized charities risk being left behind in the digital arena. Larger charities are becoming increasingly adept at accessing beneficiaries better and increasing the impact of their fundraising efforts, and this is to be lauded; smaller charities, however, struggle to get hold of the expertise, time and money to explore this area as fully as possible. Beyond cutting edge innovation, even what may seem basic technological developments in the private sector are often not implemented in smaller charities, such as proper and useful data management systems and good web development. These organisations must be given better access to active support in these areas before they can consider innovation in the broader sense.

24. Innovation must also be seen more broadly than simply in digital terms. The pressure noted above are causing charities to innovate regularly to adjust to the changing needs of their beneficiaries and the changing political and funding landscapes. One charity wrote: “In homelessness services we constantly have to adapt our service to meet the needs of the client group. These needs change from client to client.”

25. Charities are increasingly looking at ways of diversifying their funding, and a very high proportion of those who work with Pilotlight are seeking some form of trading arm or social enterprise, often based around the selling of their expertise in the form of training to public or private bodies. Quite simply, though, this is a very different skill from running a service on a break-even basis, and charities feel the pressures to get such ventures turning a surplus in a short period of time. A greater level of resource and expertise support for this type of activity would be welcome.

26. (Q4) What skills are required to lead and manage a charity?

27. Communication and empathy are two capabilities given prominence amongst the skills required to run a charity amongst our partner charities. This is complemented by “excellent management skills, interpersonal skills, negotiation skills, ability to identify new opportunities, ability to get the best out of staff and to deliver a high quality service, [and] ability to evidence the difference the charity makes”.

28. It is worth noting that the charities with which Pilotlight works tend to be relatively lean in staffing terms, and a CEO or equivalent employee is likely to have to undertake a very broad range of activities, from writing funding bids to dealing with HR issues to reporting to trustees to preparing financial reports. This, combined with the skills mentioned in the previous paragraph, means expectations for leaders of smaller charities are often extremely burdensome.

29. A corollary of this is the question of personal resilience, which was also highlighted by our respondents. Being a leader of a smaller charity can be a very lonely position with a great
deal of responsibility and often little to no access to support networks and development opportunities. We would hope to see government strategy supporting greater access to these opportunities.

30. **(Q4) What role should trustees play in the performance and effectiveness of a charity?**

31. The key role highlighted by our respondents is that trustees ought to be a ‘critical friend’. This was generally given priority in the minds of charity leaders over fiduciary responsibilities, and it is something we regularly see amongst our partners as a challenge to get right. There ought to be a balance between being supportive – taking the pressure off the CEO and ensuring that decisions are backed up – and putting in place robust decision-making. While support for legal and fiduciary aspects of trusteeship is provided well by the Charity Commission, it can be much more difficult to find ‘good practice’ guidelines for what might be considered the softer skills involved in being on a board.

32. In this vein, there need to be clear roles and boundaries for trustees. Charity CEOs are troubled by trustees who “feel that their role includes getting involved with operational duties”, though of course the extent to which this is the case will depend on the size and setup of the organisation. Despite this, a vital mind-set shift that needs to occur within the sector, particularly amongst smaller charities, is to see trustees and chief executive as a real leadership team. Communication must be effective and better good practice information must be provided and publicised to enable this.

33. Further roles important for a trustee are knowledge of the communities and markets in which the charity operates, bring to bear their professional skills on the charity, advocate for the interests of the charity and take accountability for the decisions of the charities.

34. When Pilotlight engages with a partner charity, we set aims with the group to focus the project; of those projects which have completed so far in 2016, 100% had a project aim around governance and leadership. With small organisations engaging people in senior voluntary roles, there is very often a great deal of improvement to make. When trustees begin to be a hindrance to the performance and effectiveness of a charity, either through excessive demands or poor engagement, charity leaders currently feel they have little recourse to effect change.

35. **(Q6) How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

36. There is increasing emphasis on effective measurement of impact, and this is an area that many small charities do not have skills or experience in. Improvement in this area would allow them to demonstrate how well they are achieving their objectives, which is key to being accountable to donors and funders.

37. Improvements in governance across the sector are also crucial. Trustees are still too often either disengaged or not equipped with the right knowledge to do their job well, thus both maintaining the status of the charity and being accountable to the taxpayers who put faith in charitable organisations. The government can provide better guidance and mentoring, along with funds for affordable or free training.

38. **(Q7) What are the current challenges to financial sustainability as well as efficient resource and risk management for the sector?**
39. As outlined in paragraph 0, the last eight years’ changing financial landscape following the impact of the 2008 financial crisis and subsequent austerity measures has had a keenly felt impact on the sector. Specifically, cuts to funding have come hand in hand with competitive tender processes, and becoming ready for such processes is often out of the skillset and experience of smaller charity leaders.

40. The following four quotations from our partners sum up the main concerns around financial sustainability (emphasis ours):
   
   a. “Core funding, to enable the strategic and administrative management of the charity remain stable during fluctuating periods of project funding.”
   
   b. “A lack of more long-term funding stifles creativity and the ability to commit beyond 12 months to plans and decisions.”
   
   c. “Having to tender competitively to work with disadvantaged communities/people instead of being trusted and commissioned to deliver.”
   
   d. “Also we must keep in mind that our greatest resource is our staff, and if we are unable to provide competitive salaries and benefits [compared] to other sectors, we may lose staff and their associated qualities, training and expertise.”

41. Pilotlight has also seen that stretched resources within smaller charities result in an inability to dedicate resource to strategic thinking and forward planning. This stems from an unwillingness from funders of all types to provide funding for strategic roles or for central roles that would allow the senior members of staff teams in smaller charities the capacity to think ahead. More support in this area would create more opportunity for such organisations to put themselves on a stable footing, engage in more partnership working, anticipate risks and become more sustainable.

42. (Q9) What should the role of Government be with the sector?

43. There are a few key areas to highlight in response to this question: (a) information and guidance; (b) funding; (c) listening and recognising; (d) promoting; (e) partnerships.

   a. **Information and guidance.** Government should inform charities by providing them with “a complete local picture”. It can also do more to provide guidance to charities on how to both be compliant and become more effective. Secondments and mentoring can be a useful tool to achieve this.

   b. **Funding.** Again, this is crucial. Government can provide access to longer term funding as well as simplifying bidding and tendering processes, especially at a local level. One charity suggests having a core funding pot “administered by voluntary sector organisations that enables charities that achieve certain standards of service and who can demonstrate community benefit to apply every three years for core funding”. Any such approach should come hand in hand with effective monitoring of core funding provided from public, private and charitable bodies in order to signpost organisations well and to fill gaps where necessary. Finally, it needs to “emphasise the need for third-sector organisations to operate on full cost recovery. It should do more to get funding to smaller organisations, not just big national charities.”

   c. **Listening and recognising.** A health charity puts this as follows: “We all work in the heart of our community/issue/specialism and have live, grassroots information,
knowledge and intelligence which can inform and improve policy.” All respondents felt that the important work of charities ought to be recognised better: “National government should genuinely recognise the role the third sector and volunteers play in delivering much needed services.”

d. **Promoting.** It is clear that charities felt under pressure last year due to negative publicity around charities, such as those engaging in poor fundraising practice; the government did little to alleviate this public pressure. One national charity, while highlighting the importance of combating this through improved oversight, writes: “The government should champion and celebrate the work of charities where there is significant local and national achievement.”

e. **Partnerships.** A charity with a federation structure suggests that “there should be a better process of collaboration and funding that is more consistent across the country”. In conjunction with improved recognition of the sector’s importance, government can complement fuller strategies by encouraging the third sector to “bring mechanisms and resources to deliver on that strategy”. As a more specific point, a Welsh charity mentions that “in Wales there has been an unhealthy relationship of buyer and deliverer where local authorities set an agenda and then fund voluntary organisations to deliver it” as opposed to a genuine strategic partnership.

44. In summary, the government should recognise the importance of the work done by charities of all sizes, listening to them and building partnerships, but backing it up with material support including fit-for-purpose funding which is nationally consistent but takes into account needs of different types and sizes of charity.

45. We also believe that the government can do more to fund the infrastructure of the sector. For example, it was pledged in the government’s manifesto that there would be three days of paid volunteering leave for employees in the public sector or companies of over 250 workers. This would be welcomed, but cannot simply be imposed; there must be adequate funding to allow for charities to make the most of this and for volunteers to feel their contributions are valuable. Volunteers are not free and take time and money to recruit, train and manage; many charities are concerned that they would not have the resources to commit to this. Government should fund charities to make sure they have this resource, while also backing networks of brokerage organisations to reduce workload on both charity and employer as well as best leveraging the skills of volunteers.

46. **(Q10) What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?**

47. At Pilotlight, we firmly believe that the business sector has a greater role to play in supporting the charitable sector. One particularly relevant area for the smaller charities with which we work is effective strategy and planning. With funding changes, shifting political priorities and varying levels of demand, the environment can seem extremely uncertain for charities; this is exacerbated by many charity leaders having come up from frontline service provision rather than developing organisational administration skills early in their careers. Often, businesses are more used to creating solid plans, and this expertise can be transferred across sectors.
48. Skills-based volunteering programmes like Pilotlight’s, using individuals primarily from the private sector, have proven successful in equipping leaders of small charities with the tools to engage in strategy and business planning. One of our volunteers stated that he found it “amazing how the skills and experiences we have learnt in [our business] can be applied to real effect in charitable organisations”; meanwhile, a charity CEO stated that the programme “really does address the most fundamental needs for charities, and really helps us to do our job better”.

49. The increased competitive nature of the charity sector is also an area in which private sector skills can be learned from. People often say that collaboration must be the focus of the charitable sector rather than competition; while this principle is to be lauded, the facts mean that charities often must be more pragmatic in how they behave and think of similar organisations. In LocalGiving’s Sustainability Report 2015, 83% of local charities cited increased competition for grants and contracts as a major financial concern. Businesses, which are more inclined to realistically assess their competitors, have a great deal to teach the sector about how to set oneself apart from competitors and communicate effectively with potential funders and partners.

50. While in the business sector there is acceptance of the importance of spending money on such things as overheads, appropriate staff rewards and marketing, there is still scepticism of this in the charitable sector from all sides. Although excessive spending in any area is to be reined in, the charitable sector as a whole can take lessons in how to assess the value of an investment. One of our partner charities, for example, highlighted a local authority which asserted that on a particular project “staff salaries could not be paid because it was taxpayers’ money”. Better communication and government support to improve understanding both within and outside the sector on what effective charitable spending looks like would be valuable.

51. We feel it is important to highlight that the charitable sector also has lessons to teach others. Our volunteers from the private sector see huge personal and professional benefits from supporting charities: last year, 93% of volunteers from corporate partners felt engagement with the programme had improved their coaching skills and 70% their career development; all felt they had an increased understanding of the challenges of running a charitable organisation and the operating environment in the sector. Such cross-sector understanding can only be positive to build partnerships to the benefit of both.

5 September 2016
1. Donors want a clear understanding of who is doing what in what space, dislike aggressive competition for funds between similar charities and are generally suspicious of charities with overlapping services.

2. By way of example in a period 15-20 years ago the entire cancer sector re-organised itself by stages through the simple mechanism of the relevant Chairmen talking to each other in a common sense way.

3. The objective was to gain greater efficiencies from, where appropriate,
   - combining to achieve scale,
   - clarifying function via segmentation, including taking correcting actions where overlaps occurred, and
   - to end the practice of smaller charities being succoured by larger charities.

4. The two largest cancer research charities, Imperial Cancer Research Fund and Cancer Research Campaign, merged in 2002 to from today's giant scale Cancer Research UK (CRUK).

5. Macmillan Cancer confirmed its scope and responsibility for all support during the cancer journey from point of diagnosis to recovery or, if terminal, handed the affected person over to Marie Curie for the last 6 weeks of life. Marie Curie nurses are fully trained medical professionals qualified in modern morphine techniques. (In contrast the iconic Macmillan Nurse is an umbrella expression covering all manner of support during the cancer journey inside the hospital and at home). Crucially, to effect this segmentation Macmillan gave away its hospices to Marie Curie.

6. During the same period the larger charities decided that smaller charities should be disconnected from their under-belly and sink or swim on their own. Some went out of business, mainly because they had neglected fund raising, others flourished and are exemplified by the site specific charities of today. To ensure the entire cancer charity spectrum is available to those affected by and interested in cancer, Macmillan Cancer carries a direct link from its website to most smaller site specific charities.

7. Once this overall organisation of the cancer landscape is explained to a potential donor of any type, concerns about overlap, duplication or unnecessary competition are usually overcome.

15 December 2016
Plan International UK strives to advance children’s rights and equality for girls all over the world.

As an independent development and humanitarian charity, we work alongside children, young people, our supporters and partners to tackle the root causes of the challenges facing girls and all vulnerable children.

For nearly 80 years we have been building powerful partnerships for children, and we are active in over 70 countries.

We are proud to be part of the charitable sector in the UK. Charities are a significant part of the solution to the challenges that societies face globally every day; they’re the vehicle through which people make a difference and bring about change in the world. We welcome this inquiry and appreciate the opportunity to submit evidence to it.

**Pressures and Opportunities**

**What are the main pressures faced by charities currently, and what impact have these had?**

Fundraising through individual giving has become increasingly challenging in recent years. Several factors have contributed to this environment:

- Face-to-face and telemarketing agencies have recognised a need for better quality and monitoring of their services. This comes at a cost, which is passed on to their customers, i.e. charities, thereby increasing the cost per acquisition of new individual givers.
- We have fewer opportunities to contact our existing supporters. The changes to the Fundraising Code of Conduct concerning the Telephone Preference Service have almost wiped out our telemarketing file. We can no longer contact many of our valued donors, even though our experience indicates that they would like to hear from us and may be willing to make additional donations to support our work.
- Trust in charities has been damaged by negative media coverage which has taken a “broad brush” approach to the entire charity sector, leaving everyone stigmatised.
- Plan International UK’s donors are extremely loyal and we have had only a few cancellations of support as a consequence of the “Fundraising Crisis”. However, negative sector coverage has unsettled many sponsors, and supporter care teams see an increase in incoming calls and emails that need to be dealt with. This costs time and resources.

**What opportunities do charities have in the current environment?**
• The need to revisit our fundraising strategies has reminded us of the importance of taking a supporter-centric approach. It has prompted creative and innovative thinking which will serve us well as an organisation.

• We have had opportunities to correct the misconception that the majority of UK supporters of charities are unhappy and feel mistreated. An example of a tactic we have employed in recent months is to contact our existing donors to thank them for their support, without making any fundraising ask whatsoever. This has largely been welcomed, and has strengthened our relationships with these supporters.

• Trustees have been directed to pay special attention to fundraising practices, and this is generally a positive thing. It has enabled us and our Trustees to take a fresh look at the ‘increased targets, pressure on income, growth aspiration’ approach that has taken hold in many charities over the past years.

• Sector led coalitions and peer-to-peer support among charities has been fantastic in the last 18 months. Sticking together and reviewing our practices collectively is a positive thing.

• We've recognised the need for and value of diverse perspectives, and see more opportunities to work in collaboration with private-sector partners – harnessing their expertise and experience alongside our own for maximum impact.

Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

• Plan International UK has no political or religious affiliation. A diverse fundraising portfolio that doesn’t make us dependent e.g. solely on government funds is crucial to maintain this. The current focus on the misconduct especially of INGOs delivering development outside the UK puts a great strain on our ability to maintain our independence through individual sponsors.

**Governance**

What role should trustees play in the performance and effectiveness of a charity?

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
- What, if any, changes might this mean for current arrangements?

Under the current governance model, charity trustees hold very similar responsibilities as a non-executive director in the corporate sector. This is difficult to deliver when trustees are volunteers. There is a risk that the voluntary nature of the role means the pool of talent is too small to recruit the right expertise and the right availability. Furthermore there seems to be a reluctance to hold volunteer trustees to account in the same way paid non-executive directors are held to account, with their performance appraised etc.
It is time that there was a real debate as to whether or not trustees of larger charities should be paid and held to account for their performance in a much more systematic manner. This already happens in some charities (for example charitable housing associations) and would not need a change of legislation, just a change of culture and changes in the governing documents of those charities.

The role of the government

What should be the role of the Charity Commission?

The purpose of the Charity Commission is to ensure that the public can support charities with confidence, and yet their ability to verify the information that is made public through them is very limited. There is a false perception that the Charity Commission protects the public good by scrutinising charities for poor performance, in the same way that the Care Quality Commission or the Homes and Communities Agency scrutinises their sector’s organisations. The general standards of performance in the social housing sector and the NHS have risen since their regulation was tightened and their boards "professionalised". The Charity Commission’s role should be enhanced, especially in relation to larger charities.

5 September 2016
Public Concern at Work — Written evidence (CHA0157)

We welcome this opportunity to contribute to the inquiry into the charitable sector; our submission will focus on whistleblowing issues within the sector. With this in mind we will focus on questions six and nine.

Introduction

1. By way of introduction, we are an independent whistleblowing charity, and we run a free legal advice service for workers who have witnessed wrongdoing or malpractice in the workplace but are unsure how to raise their concerns. Since being founded in 1993, we have advised over 21,000 whistleblowers.

2. Since its inception, the charity has been closely involved in monitoring the effectiveness of the law that protects whistleblowers, the Public Interest Disclosure Act 1998 (PIDA). In 2013 and 2014 we successfully lobbied the government to amend PIDA, leading to the establishment of vicarious liability for victimisation by co-workers and the creation of a duty on regulators to report anonymised data on whistleblowers.

3. Our experience advising whistleblowers puts us in a unique position to offer support to organisations in managing their whistleblowing arrangements. To help organisations get whistleblowing right we provide training and advice to organisations on drafting and effectively communicating their whistleblowing policies. We work with organisations from all sectors and our clients include the British Red Cross, Care UK, Home Retail Group, NHS Scotland and Lloyds Banking Group.

4. Approximately 3-5% of our yearly calls come from the charitable sector. So far this year we have experienced a 9% increase in calls to our advice line compared to last year, with a doubling of calls specifically from the charitable sector, up from 58 in 2015 to 115 so far this year.

5. The top two types of wrongdoing raised with us on the advice line from the charitable sector are working practices (29%) which cover concerns such as governance issues and financial mismanagement, and financial malpractice (28%) which covers theft, fraud and the misreporting of finances to a third party.

Question 6 how can Charities ensure they are properly accountable to their beneficiaries, their donors, and the general public?

6. In calling for this inquiry, Lord Shinkwin eloquently laid out the damage done to the charitable sector following recent scandals such as the collapse of Kids Company, the Olive Cooke tragedy and the high profile court case involving Terrence Higgins. These scandals have hit public confidence at a time when demand for the unique services provided by charities has never been higher.
7. Whistleblowing forms an important response to these challenges. Internal whistleblowing arrangements can provide an effective early warning system alerting management to a problem before it develops into a scandal. Charities with good whistleblowing arrangements will demonstrate to stakeholders, regulators and the public that the sector is transparent and open to scrutiny.

8. Research into 1,000 calls to our advice line shows that the majority of whistleblowers will raise their concerns internally. Furthermore, they will only raise their concerns once or twice providing a small the window of opportunity to take action.  

9. The same research showed that 76% of callers from the charitable sector who had raised their concerns said they believed nothing was done about the wrongdoing or malpractice. This is slightly higher than the cross-sector average (74%). This is a worrying finding as surveys have shown that a major barrier to people coming forward with concerns is the fear that nothing will be done.

10. To counteract this finding more must be done to improve charitable bodies’ internal whistleblowing arrangements; this can be achieved by identifying what is already considered best practice, and encouraging further development of this across the sector.

11. In 2013, PCaW established a Whistleblowing Commission to examine the effectiveness of whistleblowing in the UK and to make recommendations for change. One of the key recommendations from the Whistleblowing Commission’s subsequent report was the introduction of a Code of Practice to assist employers and workers in addressing whistleblowing concerns. PCaW fully supports the Code, and we are pleased that the Financial Conduct Authority (FCA) has already considered the Code during the development of their new rules on whistleblowing.

12. The Code of Practice recommends that organisations have written procedures covering the raising and handling of concerns. These procedures should be clear, readily available, well-publicised and easy to understand. Additionally, the Code states that key staff should be trained on handling concerns. Beyond this, organisations should ensure that there is sufficient oversight of the arrangements. Once an organisation has put whistleblowing arrangements in place and established effective oversight, it is vital to review these arrangements periodically (see annex A for a copy of the Code).

13. The Whistleblowing Commission recommended that the Code be underpinned by statute which would mean it could be taken into account as a set of principles by
Public Concern at Work — Written evidence (CHA0157)

tribunals, courts or regulators when deciding whistleblowing issues. This would not require organisations to have a whistleblowing policy and instead follows the ACAS Code of Practice model by setting out best practice principles.

PCaW recommends the following measures:

- The Committee should endorse the Code of Practice as an example of best practice that can be applied across the charitable sector;
- Charities should be encouraged to train managers in handling whistleblowing concerns, and raise awareness among staff so that they better understand their organisation’s whistleblowing arrangements;

Question 9 what should the role of Government be with the sector? What should be the role of the Charity Commission?

14. In this section we will look at what role the Government and the Charity Commission can play in encouraging whistleblowers to raise their concerns, and what more can be done to support those who come forward.

15. As we have stated above if workers in an organisation have the perception that managers will fail to deal with or ignore concerns raised, then this may well prevent workers from coming forward. The Code of Practice offers a clear way for organisations to reverse this perception by creating effective internal mechanisms, backed by well trained and informed managers. The Government and the Charity Commission have a role to play in promoting such best practice principles.

Government Action

16. Though the law does not make whistleblowing arrangements mandatory, there are examples where the law encourages their use, and where regulators require their implementation.

17. The Bribery Act 2010, created the offence of failing to prevent bribery. Section 6 of the legislation states that commercial firms will commit an offence if employees or other associated persons commit offences of bribery, unless the firm in question can show they had ‘adequate procedures’ to prevent bribery. The existence of whistleblowing or ‘speak-up’ policies would go some way to demonstrating that such procedures are in place.

18. The Modern Slavery Act 2015 (MSA) created new obligations for UK businesses with an annual turnover of £36 million or above. Section 54 of the MSA requires the relevant businesses to produce an annual slavery and human trafficking statement and publish it in a prominent place on their websites. The MSA provides that the statement may include information about “its policies in relation to slavery and human trafficking”; “the parts of its business and supply chains where there is a risk
of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk”; and “the training about slavery and human trafficking available to its staff.”

19. We believe the charitable sector would benefit from further steps from the Government to encourage more employers to have effective whistleblowing arrangements as this will drive up the standards in this area. We recommend that the Government, using the Whistleblowing Code of Practice as a starting point, launches a consultation to create a national code of practice.

20. This new Code of Practice should be underpinned by statute in a similar way to the ACAS Codes of Practice. This would mean that courts, tribunals and regulators will have a set of principles to refer to when assessing whistleblowing issues.

Action from the Charity Commission

21. In recent years, regulators have paid closer attention to the culture in the organisations inspect or assess. Whistleblowing often forms a key part of this process, and regulators can play a vital role in developing these practices within the organisations they regulate.

22. The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) require companies they regulate to have whistleblowing arrangements (pointing to the Whistleblowing Commission’s Code of Practice as an example of best practice), including senior designated individuals, policies and training. The FCA has said they view the mistreatment of a whistleblower by a firm to be a breach of their regulations.

23. In the health sector, the Care Quality Commission (CQC) built the assessment of organisational culture into their inspection regime. Under their ‘five key questions’ which the CQC use as the basis for the way they regulate health and care organisations, one of the questions is ‘are they well led?’ as part of which they asked whether organisations “promote an open and fair culture”. Whistleblowing is then seen as an important part of an “open and fair culture”. As an example, the CQC would expect a well-run hospital to “encourage[s] its staff to raise concerns and listen[s] to what they have to say. Any concerns are investigated and acted on.”

24. The Charity Commission should follow the lead of the FCA and the CQC in viewing compliance with best practice principles around whistleblowing as a regulatory issue.

412 Section 53 The Modern Slavery Act 2015
413 https://www.cqc.org.uk/content/five-key-questions-we-ask
414 https://www.cqc.org.uk/content/fundamental-standards
25. We recommend that registration of charities should be examined where it has been shown that they have failed to put in place effective whistleblowing arrangements.

**Better legal protection for the individual**

26. Research has found that fear about possible victimisation from managers and co-workers can act as a major barrier for people coming forward with their concerns.

27. Since 2007, we have commissioned YouGov to carry out a bi-annual public attitudes survey on whistleblowing. In 2013 and 2015, we asked respondents whether they had witnessed corruption, wrongdoing or serious malpractice in the workplace in the last two years. In both years, 1 in 10 respondents said they had. Of those that said they had witnessed corruption or wrongdoing, there has been a reduction in the number who raised their concern. In 2013, 66% said they raised their concerns, whereas this fell to 59% in 2015. This represents a worrying fall in the number of people willing to raise concerns.

28. The survey looked at barriers that may prevent a worker from blowing the whistle on corruption or malpractice in their workplace. In 2015, 28% of respondents identified that fear of reprisal would prevent them from raising concerns, 23% identified a fear of damage to their careers and 22% identified a concern of victimisation from co-workers as a barrier.

29. We believe PIDA is not robust enough, this may well impact on the number of people willing to raise their concerns. The Government should revisit strengthening the law.

30. PIDA most readily protects disclosures made to the employer; there are further legal tests when a disclosure is made to a prescribed person (this is a Government maintained list of regulatory bodies which includes the Charity Commission), and even more stringent tests for making a wider disclosure (e.g. NGO’s and the media). PIDA encourages internal disclosures as the most efficient way to deal with wrongdoing or malpractice, but it does not require that a concern is first raised internally before an individual approaches either a regulator or the media. For an organisation to be considered a prescribed person they need to be part of the prescribed person list which is overseen by the Department for Business Innovation and Skills, who update it regularly.

PCaW believe the following areas of PIDA need to be strengthened:

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415 P.g. 31 Whistleblowing: Time for Change Public Concern at Work, 2016.
416 Ibid
417 Ibid
418 For a full set of our recommendations on reforming PIDA please see p.g. 8 of our review *Is the law protecting Whistleblowers?*
419 See [here](#) for a list of the prescribed persons.
1) **Extension of PIDA to include a wider group of workers:** PIDA currently offers protection to employees, as well as certain workers, contractors, trainees and agency staff who raise concerns about corruption, wrongdoing or serious malpractice. However, there are gaps in the law that are relevant to the charitable sector, which means that some workers do not qualify for whistleblowing protection. These gaps include volunteers, interns, foster carers, non-executive directors and trustees. The Secretary of State should expand PIDA to include the above list of workers.

2) **Extension of PIDA to include those wrongly identified as a whistleblower:** PIDA does not grant protection to those workers who are mistreated by their employer because they are wrongly thought to have blown the whistle.

3) **Extension of wrongdoing:** PIDA should be simplified and should contain a non-exhaustive list of the categories of wrongdoing, including gross waste or mismanagement of funds and serious misuse or abuse of authority.

4) **Extension of the interim relief deadline:** The interim relief provision in PIDA should apply to detriment as well as dismissal and the time within which to bring an interim relief claim should be extended.

5) **Clearer anti-gagging provisions:** The anti-gagging provision in Section 43J PIDA should be amended to make it clearer and advice on the impact of this provision should be given to claimants upon settlement.

6) **Code of Practice:** PIDA should be amended to grant the Secretary of State power to issue a Code of Practice on whistleblowing arrangements that can be taken into account by courts, tribunals and regulators when deciding whistleblowing issues.

**A summary of PCaW recommendations:**

- The Committee should endorse the Code of Practice as an example of best practice that can be applied across the charitable sector;

- Charities should be encouraged to better train managers in handling whistleblowing concerns, and provide awareness training for staff;

- The Government, using the Whistleblowing Code of Practice as a starting point, should launch a consultation to create a national code of practice;

- This new code of practice should be underpinned by statute in a similar way to the ACAS Code of Practice. This would mean that courts, tribunals and regulators will have a set principles from which they can assess whistleblowing issues;

- PIDA should be expanded to include the following workers: volunteers, interns and foster carers;
• PIDA should be extended to cover those workers who are wrongly believed to have blown the whistle;

• PIDA should have a non-exhaustive list of wrongdoing. The list of categories should be extended to cover gross waste or mismanagement of funds and serious misuse or abuse of authority.

• The wording of 43J, the anti-gagging provision, should be simplified and advice should be given to a claimant on its impact upon settlement agreements.

9 September 2016
Evidence from the Public Relations & Communications Association (PRCA) Charity & Not For Profit Group

Introduction

Who we are:
Founded in 1969, the Public Relations and Communications Association (PRCA) is a UK-based PR and communications membership body, operating in 48 countries around the world. We represent in excess of 20,000 people across the whole range of the PR and communications industry. The PRCA promotes all aspects of public relations and communications work, helping teams and individuals maximise the value they deliver to clients and organisations.

What we do:
The Association exists to raise standards in PR and communications, providing members with industry data, facilitating the sharing of communications best practice and creating networking opportunities.

How we do it and make a difference:
All PRCA members are bound by a professional charter and codes of conduct, and benefit from exceptional training. The Association also works for the greater benefit of the industry, sharing best practice and lobbying on the industry's behalf e.g. fighting the NLA's digital licence.

Who we represent:
The PRCA currently has more than 400 agency members; 270 in-house PR and communications teams from multinationals, charities and leading public sector organisations; and thousands of individual members.

The Charity & Not-For-Profit Group supports PRCA members working in-house and in agencies for a wide range of charities, voluntary sector organisations, NGOs, not-for-profit groups and social enterprises.

Our four main areas of focus are:
Sharing knowledge & developing new talent
Building the reputation of the charity and not-for-profit sector
Protecting charity and not-for-profit freedom of speech
Celebrating best practice

We believe that the charitable sector in the UK is at a pivot point. Either it learns the lessons of the last few years and emerges stronger from it, or it faces a period of uncertainty and potential decline.
Our evidence to the House of Lords Select Committee is focused around the three questions our Members’ have most experience of: the pressures on charities, digital innovation and the role of government. As a group concerned with charity communications, we also have views on the role and purpose of charities and how they are – and should be – perceived by the public.

1) Role and purpose of charities: Time to recognise evolution

1.1. The evolution of charities in the past few decades has been phenomenal. From a sector on the sidelines run by volunteers, charities are now involved in the everyday fabric of British society with increased professionalism, delivering vital services.

1.2. While some charities would take their place on the FTSE100 if they were private firms, a metaphor for the sector would be an iceberg. The high profile large charities are just what can be seen above water.

1.3. Below this, there are thousands of micro, small and medium sized charities. We would advise the term “SMCs” is adopted to describe this group, like SMEs is in the private sector.

1.4. In many ways, seeing “charities” as short hand for a sector is unhelpful. The Committee would be wise to reflect on the diversity of the sector and look at the role of different types of charities. In addition to large charities versus SMCs, charities should also be seen as falling into different types. For example:
   - Service deliverers (e.g. RNLI, Eton College)
   - Researchers and developers (e.g. Cancer Research UK, British Heart Foundation)
   - Representers and advisors (e.g. Carers UK, Home Education Advisory Service)

1.5. Of course, many charities may fall into more than one of these categories and this list is not exhaustive, but demonstrates our thinking.

1.6. Understanding this diversity is crucial in then considering how the public perceive charities.

1.7. The more “the charitable sector” and “charities” are lumped together by commentators, critics and policy makers, the less people will understand the fundamental differences between individual charities’ operating models.

1.8. At present, if one charity does something wrong, the whole sector is blamed. This would clearly not happen in other – such diverse – sectors of society. If one person in a town commits a crime, the whole town is not blamed. If one child in a school fails a test, the whole school is not shut down.

1.9. And yet, this is the way politicians and the media sometimes portray charities. This needs to change and the Committee’s report should provide the leadership to help re-set the reputation of the sector.
1.10. We – and our Members – look forward to playing our part in this re-building of charity reputation.

2) Pressures on charities: Time to move on

2.1. The last few years will go down as some of the most tumultuous ever experienced in charity communications. The Lobbying Act, the Charities Act, fundraising malpractice, the threat of a gagging clause and a hostile media climate have shaken the sector.

2.2. However, the world is stabilising slightly and it’s time for the sector to take stock and move on.

2.3. There is still work to do on improving the Transparency of Lobbying, Non-party Campaigning and Trade Union Administration Act (i.e. the “Lobbying Act”) and resisting any future attempts to limit campaigners’ freedom of speech.

2.4. On the Lobbying Act specifically, our group gave a “cautious welcome” to the Hodgson Review. There is much to welcome, but also much to still worry about – especially given the noticeable silence of the new government towards implementing any of the recommendations.

2.5. The official Review into the Act clearly recognises the concerns the PRCA Charity and Not-for-Profit Group and its members had with the Act and the way it was introduced.

2.6. The Group’s formal response to the Hodgson Review criticised the Lobbying Act’s impact on campaigners prior to the General Election.

2.7. It highlighted major concerns with the implementation of the Act which “severely limited” charities’ campaigning activities and set out recommendations to address the inadequacies of the Act and the guidance provided by the Electoral Commission.

2.8. The Review has taken very welcome steps to address the concerns the Group raised in written and face to face evidence sessions – with 70 per cent of the PRCA’s recommendations being met in full or in part.

2.9. And as the charity leaders’ network ACEVO made clear, it’s vital that the government implements the Review’s recommendations.

2.10. Especially welcome are the Review’s recommendations for a shorter regulated period, clarity on the contribution of staff costs, calls for improved guidance from the Electoral Commission and more emphasis on creating a level playing field with private companies made aware of their obligations under the regulations.

2.11. However, the Review’s proposed changes to the Act do not go far enough to:
- Ensure action is taken to help smaller organisations be aware they are unlikely to be covered
- Make allowances for inflation in the spending limits
- Specifically allow pro-bono support for campaigners from marketing agencies to be classed as volunteer rather than staff time
- Establish a process to ensure the Electoral Commission guidance is easy to understand and peer reviewed by campaigners before publication

2.12. There is also one worrying recommendation.

2.13. In the current legislation, only material that is directly targeted at the general public is regulated. However, Lord Hodgson appears to suggest that the definition of who constitutes the “general public” is revised and expanded to include “committed supporters” who may then use social media (and other channels) to spread an organisation’s message further.

2.14. This will mean more charities may need to register as those staff costs and expenses involved in supporter communications are also counted toward the financial limits.

2.15. The move will also muddy the waters for campaigners; forcing them to segment their supporters into groups. Communications with “Constitutional Members” and “Affiliated Supporters” would continue to be excluded, but other “Committed Supporters” included in the regulations.

3) Charities’ Digital Innovation: Time to encourage failure

3.1. One of the biggest barriers to innovation is the inability for charities to be seen to experiment. In other words, charities are so risk averse to new ideas, in case they fail, they are often unwilling to innovate.

3.2. In the digital sphere, charities lagged far behind brands in using social media for customer relations, although that is now changing and (especially in the bigger organisations).

3.3. More widely, many organisations (such as Facebook) operate a 60:30:10 rule. 60% of activity is tried and tested, guaranteed to get results. 30% should be new activity, based on evidence, but which is likely to succeed. The remaining 10% should be new, fresh ideas. Some may fail. Some will succeed, but innovation will deliver in the long run.

3.4. Charities may prefer, perhaps, to use an 80:15:5 rule to err more on the side of caution, but all should be encouraged to innovate, try new campaigning, marketing and fundraising tactics.

3.5. To resolve this problem, trustees must have more confidence and encourage innovation, communicators must be enabled to try new ideas (for example, within agreed budget failure levels) and the costs of innovation should be driven down.

3.6. Group purchasing, approved suppliers who have limited profit levels when working with charities and strategic partnering with commissioners could all help re-boot charities’ innovation.
9) The Role of Government: Time to reset the relationship

9.1. The relationship between charities and government needs to vastly improve. The view of some in our sector is that government is “out to get it”.

Electoral Commission
9.2. As outlined above in our response to question two, the role of the Electoral Commission has been a keen focus for charities in the past 18 months. It seems to be learning the lessons of the 2015 General Election – but we will continue to monitor its effectiveness of communications with ALL third party campaigners.

Anti-advocacy
9.3. The Cabinet Office’s horrendous (and botched) attempts to introduce a “gagging clause” into contracts with charities must continue to be resisted. While the Minister responsible has now been re-shuffled, there is still a feeling in the sector that this may come back onto the agenda.

9.4. We will not comment further on whether this is morally right or wrong, but instead would look to ensure that any such proposals are looked at in the context of two factors:

   9.4.1. The diversity of the charity sector (see above, question one) and how charities do have representation and advocacy on behalf of members and supporters as part of their charitable objectives (and this right should be defended).

   9.4.2. Fairness and how charities should not be singled out for unfair penalties. Can the Committee imagine a situation where G4S, Capita or another private company the government outsources contracts to, being banned from having a public affairs function? We would hope not, but this is what an anti-advocacy clause would mean.

Charity Commission
9.5. Charities already face additional bureaucracy and regulatory burden than the private sector. Therefore, governments should resist the attempts to think the answer to a “better” charity sector is more regulation via the Commission.

9.6. Charities are keen to build a more constructive relationship with government in order to achieve their charitable objects. The benefits to government and society from doing so, particularly in a time of economic uncertainty, could be immense.

Summary of recommendations
We believe the Committee should:

R1. Recognise and respect the diversity of charities.
R2. Provide leadership to aide in re-setting the reputation of charities.
R3. Support the reform of the Transparency of Lobbying, Non-party Campaigning and Trade Union Administration Act (i.e. the “Lobbying Act”), in line with the Hodgson Review.
R4. Resist any future attempts to limit campaigners’ freedom of speech.

R5. Support for charities to innovate more in the digital arena – even if this means some projects will “fail.”

R6. Examine how group purchasing, approved suppliers (who have limited profit levels when working with charities) and strategic partnering with commissioners can help re-boot charities’ innovation.

R7. Reject any notion of anti-advocacy plans by government, but if such plans are introduced they should reflect the diversity of the sector and be on a level playing field with corporate suppliers to government.

R8. Resist the attempts to think the answer to a “better” charity sector is more regulation via the Charity Commission.

30 August 2016
1. I am Andrew Purkis, and am a Trustee of ActionAid International and Executive Director of a grant-giving charitable Trust. I spent my career in the charity sector as Assistant Director of NCVO, Director of the CPRE (Council for the Protection of Rural England), Secretary for Public Affairs to the Archbishop of Canterbury, Chief Executive of The Diana, Princess of Wales Memorial Fund and later of the Tropical Health and Education Trust. I have also been the Chair of four UK charities and Trustee of two others. I submit this evidence in an individual capacity only.

2. I have kept the focus on charities’ role in public policy, and tried to keep it brief. I shall be very happy to furnish more detail or references on request. We are talking here about political activity as defined by the Charity Commission: not only campaigning in the narrower sense but also insider lobbying, presentation of arguments and information, and media work, designed to influence legislators, Government or state administrative decisions and practice. All of that is how charities play their part in the polis. Charities’ political activity must not be party political in nature.

3. Glancing even briefly at our history, we see that voluntary sector advocacy for what are now charitable causes has had a central role in what most people would regard as progressive social advances. The great agitations to abolish the slave trade in the British Empire, and then Slavery itself, set the template for many more agitations for justice and moral improvement in the years to come, with both religious and secular charities to the fore. To take a few examples, there were the movements for temperance and licensing of drinking; for animal welfare; for the rights of children and against the cultural presumption that parents could do whatever they liked with their children; for women’s rights; for equality for gay people; for the reform of prisons; for a dignified life for disabled people; for the proper recognition and support of carers; for protection of the environment and natural beauty, the creation of National Parks and green belts – and on and on. It is the official position of HMG, as articulated by the Minister for Civil Society Rob Wilson, and of the Charity Commission, that this is a very important contribution of the charity sector to our national life – it’s just that the Government confuses this message with others (especially in trying to justify the anti-advocacy clause) and the Charity Commission Board has omitted to mention it at all for most of the last four years, preferring to focus on what they see as risks. It was very striking how negative and discouraging was the guidance of the Charity Commission for England and Wales on charities role in the debate about the EU Referendum, and how positive by comparison was their Scottish counterpart, basing guidance on the same law.

4. Open your newspapers today. Many topical issues have been placed there wholly or in part by long term political activity by charities. Inequality. Tax avoidance. The Living Wage. The 0.7 per cent of GDP devoted to overseas aid. The housing crisis. Modern Slavery. Anxiety about global warming. The prevalence of domestic violence. Racial bias against ethnic minorities in many public services. Unaccompanied children stuck in Calais. Environmental consequences, and the
impact on developing countries, of current subsidies to farmers. The slaughter of raptors by game keepers on grouse moors. Currently, therefore, as well as historically, it is ill-informed to seek to confine the role of charities to practical work and ignore the enormous contribution of charities’ political activity to advancing charitable causes. Virtually every civil servant working on policy and every experienced Minister, every staff member of the Charity Commission and its Chair, and surely every active member of the House of Lords, know perfectly well that this is so. Perhaps some inexperienced SPADS do not.

5. What is it that charities bring to the process of policy making, historically and today? Here’s a rough list:

- Bringing the voice and interests of excluded people or minorities into the policy arena, urging a place for them and making the powerful listen
- Bringing the knowledge, experience and realities of life of users to bear on policy makers who might otherwise be ignorant of them
- Adding to the strength of a diverse value base for public policy, and complementing or challenging the dominance of commercial or statist perspectives
- Bringing concentrated knowledge and expertise on behalf of charitable causes to counter the lobby groups of the self-interested and powerful
- Breaking open the “group think” that can characterise Government or commercial elites, as demonstrated in the study by Anthony King and Ivor Crewe of great blunders of British policy-making
- Acting as a training ground for participation in public life, as in the case of so many women learning confidence and participation in the Women’s Institutes, or as more recently demonstrated for example in the work of Elsdon and his colleagues from Nottingham.

6. I believe such contributions are demonstrable and unromanticised. But it is important to recognise the limitations also. Charities have legitimacy, but it is not the same kind of legitimacy as elected representatives of the people. Each charity focuses on its own cause, so someone else has to strike the necessary balance between competing causes, and make arduous compromises that charities may not have to make. Different charities quite often differ from or contradict each other. It’s the IEA as well as Friends of the Earth and ASH, it’s the Countryside Alliance as well as the RSPCA. How could it be otherwise, since the sector is so diverse? Some charities can have their own group think, too. So it is a good thing that public policy is not left to charities alone, but it is nevertheless a core part of the role of many charities to make the polis a more inclusive, better informed and more generously motivated place than it would otherwise be, and in that way to be a force for good in public policy.

7. From the point of view of charities, there are major reasons why, if they stuck to practical work and service delivery alone, many of them would feel they were not benefitting their cause as effectively as they could:

- Because excluded or marginalised people cannot obtain their rights without entering and influencing the polis
- Because external attitudes or events threaten your objects or your beneficiaries, so you have to respond by enlisting the support of the wider public, of state agencies or Parliament itself
• Because current laws or state practices are often part of the problem for your beneficiaries, and if you are going to do more than scratch the surface you have to try to change them, particularly because the political class may not even understand what the problems are unless you tell them
• Because sometimes the safety and security of vulnerable communities or people can only be won by the deliberate collective decisions of society, not by practical projects alone. To which we might add, the safety and security of all of us in the age of global warming.

8. When Trustees are reviewing the effectiveness of their charity, they should therefore ask themselves whether they have the balance right between practical work and influencing others, in order to have the best long term impact. In all the cases cited earlier in this evidence, and many others, effective pursuit of charitable objects involves political activity.

9. Against this background, it is regrettable that there have been efforts to curtail or discourage political activity by charities in the last few years. This effort has characterised some Conservative Ministers and MPs and the publicly appointed members of the Charity Commission. I am happy to give chapter and verse if requested. The conclusion from this evidence is that political activity in pursuit of charitable objectives is not only a right, more or less grudgingly acknowledged, but a public good. The political activity of charities is a positive gift to the polis. Without the contribution of civil society, the Man in Whitehall does not necessarily know best. The Minister and the elected representatives of the people do not necessarily know best. The SPAD certainly does not know best. They – and society collectively – need the diverse, sometimes even conflicting experience, knowledge, values and passion of the charity sector to be part of the collective decision making process, if society is to progress and public policy to be as inclusive and sound as it can be.

8 September 2016.
Reach Volunteering — Written evidence (CHA0058)

1. Reach Volunteering

1.1. Reach Volunteering specialises in skills-based volunteering. We connect professionals who want to donate their expertise with charities which need that expertise. Operating nationally, we are the leading source of trustees and skills-based volunteers for the sector.

1.2. Every year we place over 700 professionals into high impact positions in charities when they volunteer their skills and experience. Half of these positions are trustees and the other half encompass a broad range of skills-based volunteering roles such as one-off advice, mentoring, technical projects and more traditional volunteer roles such as Ambassador. Our services include TrusteeWorks which provides free, self-service trustee recruitment for charities, and a charged-for executive search option.

1.3. Over the next three years we intend to make a step change in the range, quality and quantity of skills based volunteering in the UK. Following the introduction of our new digital self-service platform last summer, we are scaling up our activity rapidly, and we expect to make 1,400 placements p.a. by 2019. Our partnership with LinkedIn, through which we cross-post all our volunteer and trustees roles to their 17 million UK members, has generated a 60% increase in volunteers joining our register, and we expect this figure to continue to climb as we develop new partnerships and embark on new marketing activity.

1.4. Reach is playing a growing role in thought leadership, particularly in governance. In partnership with Clothworkers’ Company, NPC and Prospectus we have launched a new set of awards which shine the spotlight on good governance in the sector. We participate in working groups such as The Funders Collaboration on Leadership, and develop cross-sector initiatives to tackle priority issues such as the lack of digital expertise at board level.

1.5. We will restrict our comments to our area of expertise: skills-based volunteering and trusteeship. Skills-based volunteering is a strand that runs through many of the areas that this committee is exploring, and governance is an area of specific focus.

2. The potential of skills-based volunteering

2.1. Charities deal with some of the most intractable problems of society and yet they are amongst the least capitalised organisations. As austerity bites and budgets are cut, charities are being challenged increasingly to ‘do more with less’. Simultaneously, the sector is facing important changes in the wider environment such as an ageing population, and the digital revolution, as well as more sector specific changes like the shift from grant funding to commissioning and the fall in public trust in charities. Charities will need to do things differently over the next few years if they are to thrive,

420 Boldness in a time of change – NPC, 2016
and this will require new skills and expertise.

2.2. Skills-based volunteering can play a role in helping charities navigate through these challenges. Skilled volunteers can strengthen governance, increase the effectiveness of the back-office and increase capacity in the front-line. They can help charities seize new opportunities. For example, digital presents a great opportunity to charities to enhance service delivery, communications and fundraising, but many charities are struggling to integrate digital into their activities. With the growth of open source applications and commoditised products like Salesforce, solutions often need not be expensive. However, most charities do not have digital expertise in-house, and these skills can be very expensive to hire in. Engaging expert volunteers on discrete tasks or projects (e.g. SEO, configuring software) can enable charities to make informed choices in their digital development and bring in skills as needed. There are many other areas in which skilled volunteers can play a vital role: for example income generation where volunteers can bring experience of tendering, commissioning, retail or of developing trading arms. These volunteers come with levels of expertise which can be far in excess of what a charity could have afforded, even if they had had the budget to recruit staff for these roles. This is particularly true of smaller organisations whose staff tend to have to be generalists. The volunteers bring a fresh perspective, and, often, valuable experience from other sectors.

2.3. There is an abundance of people willing to volunteer their expertise but they have to be asked in the right way. The ageing population means that more people are enjoying a longer and healthier ‘third age’. Whilst some need to keep earning, a growing army are in a position to donate their skills and are looking for interesting opportunities to do so. There is growing appreciation of the benefits of volunteering to this age group in terms of well being. The personal and professional benefits of volunteering to those of working age are also being increasingly recognised by employers and individuals. There are many reasons why people choose to volunteer – for example freelancers filling down-time or wanting to expand their portfolios; people on a career break, or wishing to try new opportunities before returning to the workplace; or individuals who simply want to have an impact on a cause they care about.

2.4. There is little relevant research into people’s willingness to volunteer their skills, but our first hand experience indicates that there is significant latent interest. We have found that the simple act of presenting well articulated and interesting volunteering opportunities to a large audience will stimulate a strong supply of appropriate applicants. Our partnership with LinkedIn (in which we cross-post all of our volunteering opportunities to LinkedIn’s UK membership of over 17 million professionals) has yielded a 60% increase in volunteer registrations for our service. We now have, on average, 270 volunteers joining us every month and we expect that number to rise as we continue to iterate our service. Many of these people were not actively looking for volunteering roles but responded to a LinkedIn volunteer opportunity which was presented to them along with other, paid, roles. This suggests

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421 Connecting People, Participation and Performance - MGSM CSR Partnership Network 2013
3. The challenges of skills-based volunteering

3.1. Although charities benefit from access to pro-bono skills, and there are volunteers willing to provide them, there are barriers to the process. Engaging volunteers with specialist skills is very different from more traditional, hands-on volunteer recruitment and management. Charities are often unaware of the range of skills they could recruit through volunteers. Staff can also be nervous of taking on a volunteer with greater expertise. Some charities have had negative experiences of volunteers – perhaps a volunteer left unexpectedly, or promised more time than they could actually spare. Charities have to invest valuable time and effort for skills-based volunteering to be effective: in thinking through the organisation’s requirements and the skills needed; in shaping these into an appropriate volunteering role; and then in recruiting, inducting and supporting the volunteers appropriately. Inevitably most organisations have little spare capacity to devote to these issues. Charities need support in thinking through how skilled volunteers can help their organisations move forward, and how to create interesting and rewarding roles that will contribute to their work and attract volunteers with the right expertise. They also need an efficient and effective way of recruiting.

4. Governance

4.1. Given the pace and scale of changes facing the sector, boards can no longer afford to restrict themselves to a passive ‘oversight’ role. They need to be working closely with the executive to map ways forward and to manage risk and opportunity. As ‘guardians of purpose’, trustees need to be focused on how their charity can maximise its impact. Specialist membership and support organisations like the Association of Chairs play a role here, as can board training. We believe that trustee recruitment is also crucial: the calibre of candidates that boards attract, and the manner in which they are recruited, have a strong bearing on the quality of the charity’s governance.

4.2. Challenges in recruitment

4.2.1. Most trustees are still recruited by word of mouth. Whilst this approach can sometimes be the effective, all too often it is a recipe for a weak board. Recruitment by a ‘tap on the shoulder’ can mean that joining the board is framed as a favour rather than a privilege, which, in turn, sets low expectations for board behaviour. Anecdotally, many organisations complain that trustees with significant experience seem to ‘leave their professionalism at the door’ when acting as trustees.

4.2.2. Word of mouth recruitment is also likely to result in a lack of diversity. There is plenty of evidence that ‘group think’ results in poorer decisions, and having an representative board is particularly important for organisations working with a broader community.

4.2.3. However, the most significant problem with relying on word of mouth is that many smaller charities simply do not have access to the full range of expertise they need.
from within their own networks. This results in skills gaps on boards, and often unfilled vacancies as well, which in turns put additional pressure on existing board members.

4.2.4. There is a general perception that it is difficult to recruit good trustees. However, in our experience, it is possible for even small charities to recruit very high calibre trustees if they invest sufficient time, thought and effort in the process. There are plenty of free or low cost options for open recruitment (including Reach’s own service which is now the single biggest source of trustees to the sector). If a board takes time to identify the skills gaps round the table, designs its recruitment campaign to attract the right candidates, and runs a professional and open recruitment process, it is likely to be able to appoint good trustees. What is required is a culture change at board level to adopt a more professional approach to recruitment.

4.3. Board skills

4.3.1. For trustees to be able to lead charities effectively, they need a broad range of expertise on the board and this expertise needs to reflect changes in the charity’s strategy and the external environment. More and more boards are faced with challenges thrown up by the new commissioning environment, for example, and need relevant expertise to be able to make informed decisions about tendering and contracts.

4.3.2. Whilst most boards are aware of the need to have expertise in conventional areas of governance such as finance or audit, few have recognised the need to recruit for digital skills. Given the opportunities and risks attached to digital, and the degree of organisational change that can be involved, it is essential that boards can address this area with competence and confidence. Without appropriate knowledge, trustees can not provide adequate scrutiny or support. Boards tend to be risk averse and to lack the understanding of the opportunities that digital can mean for their charities. The result is that trustees are, at best, unable to provide leadership in this arena; and at worst, are a barrier to innovation. Slow and bureaucratic governance can also be a drag on the implementation of digital projects, especially when an ‘agile’ process has been adopted. To this end, Reach is developing a cross sector campaign to increase digital expertise on trustee boards involving awareness raising, relevant resources and a recruitment campaign.

4.4. Examples of good governance

4.4.1. Despite these failings we do not believe that the governance model, per se, is broken. There are some great examples of good governance. For example, entries for the Good Governance Awards Turnaround category revealed many positive stories of boards leading with great courage, commitment integrity and good judgement. More needs to be done to share stories of good governance, to redress the balance of negative publicity about governance failures which have dominated the headlines over the last 18 months. By shining the spotlight on good case studies, and sharing instances of good practice, we can help establish what ‘good’ looks like, and demonstrate that it is achievable. The Charity Governance Awards are one way in which Reach is trying to
do this.

*2 September 2016*
Rethink Mental Illness — Written evidence (CHA0176)

About Rethink Mental Illness

1. Rethink Mental Illness believes a better life is possible for those living with mental illness. We provide almost 200 services across the country, we support around 120 local groups in England and we campaign to change policy and attitudes for the benefit of those with mental illness.

Summary of our submission

2. Rethink Mental Illness wishes to highlight specific issues affecting charities reliant on fundraising income as outlined in Question 2. This submission seeks to share our transparent response to growing challenges around marketing consent and opt-in systems. approach to addressing this.

Our promise to all our supporters

3. Rethink Mental Illness has considered carefully our fundraising needs and concerns around greater transparency with regard to opt-ins.

4. Within our existing mix of donors and other supporters and beneficiaries – family, friends, colleagues of those with a mental illness -, some may have a mental illness themselves that we may or may not know of, or be vulnerable in some other way. Mental illness is not a constant, lifelong state for everyone, but we must consider that all our donors might at any time be considered vulnerable in one way or another, through mental capacity, age, disability, financial circumstance or other means. So we must treat every donor or prospect with respect and clarity, and we must listen and act appropriately.

5. Others will see us through mass marketing techniques like posters, online, direct mail or press adverts. It’s inevitable that some of these people are vulnerable so we have undertaken to ensure that all of our communications clear, legible and honest.

6. We have developed a ‘supporter promise’ to address these concerns and be a leader in best practice in this area. Our full supporter promise is below and we

6.1 Thousands of individuals every year support us in a huge range of ways – some campaign with us; some help run our support groups; some donate to our appeals or by direct debit; some leave us a gift in their will; some raise money by baking cakes, running marathons or even dyeing their hair. For each and every one we’re incredibly grateful.

6.2 Thanks to that support we have helped bring about many positive changes, but there is so much more to do and the need for your support for our work remains urgent so that we can continue to work as hard as we can for as long as we can to improve the lives of everyone affected by mental illness.
6.3 We want you as a supporter to feel valued by us, so we make you the following promises:

- We will always abide by fundraising regulation to ensure that we have the highest standards of fundraising we can.

- We will never sell your data to another organisation. In addition, if we ever need to send data to a third party (for example checking against the Telephone Preference Service) we will make sure the company we use has signed a data processing agreement with us, so that they are bound to take care of your data in the same way we do.

- We will only contact you if you have expressly ‘Opted-in’ to being contacted, and only in the ways you told us, like mail, email or phone.

- If you contact us to say you no longer want to hear from us, we will update our records within two working days.

- We will never call you if you are registered with the Telephone Preference Service (TPS), unless you have expressly given us permission to do so. We will also try (as far as possible), to ensure that you are only called by staff at Rethink Mental Illness.

- We will make it as easy as possible for you to contact us, so you can tell us what we are doing well, tell us what we aren’t doing so well, or to change your opt-in preferences.

- We won’t target vulnerable* people for fundraising, though we do find that people closest to the cause, like friends and family, are among our most treasured supporters. If you, or someone close to you is considered vulnerable, we will do our utmost to ensure that all our interactions with you are done as sensitively as possible, and we’ll listen to what you do and don’t want. We want to always ensure that our supporters, vulnerable or not, feel able to make an informed decision about how you support us, and don’t feel pressured in any of your interactions with us.

- When we are thinking of introducing new fundraising products we will always consult in advance with our Service User Council (a group of our experts with lived experience of severe mental illness) on what considerations we should make to ensure that we don’t put any of our supporters in a vulnerable position. For example, how we might introduce a weekly lottery without putting people at risk of buying more tickets than they can afford.

- If we need to purchase a cold list of postal or email addresses to fundraise from, we will ensure we only buy a list where we can see there are clear permissions for the use of the person’s details. We will also ensure that we follow all data protection regulations regarding using these lists.
• *We will never ask under 18s for a donation where it is reasonable to assume that we knew their age.*

• *We will aim to communicate with supporters by email where possible, to save costs, and so this will be our preferred method to select on contact forms. Where our supporters would prefer mail of course we will honour that preference, and there will be times where we know that mail will have a better response than other methods, too.*

*30 September 2016*
Dr Felix Ritchie, Elizabeth Green, Dr Glenn Parry and Dr Peter Bradley—Written evidence (CHA0052)

Submission to be found under Elizabeth Green
The Robertson Trust

The Robertson Trust is the largest independent grant-making Trust in Scotland. Every year The Trust funds a wide range of charitable projects across Scotland with an overarching aim to improve life and realise potential of people and communities in Scotland. Alongside our more traditional Open Grants programmes we also aim to build the evidence base about what works, what doesn’t work and why within specific themes through our Partnership Awards. We then use this learning to inform policy and practice. In 2015/16 we awarded £17m to charities of all types and sizes working in Scotland. We also currently provide bursary and self-development support to young people in Scotland to complete their undergraduate degrees. These bursaries are awarded to young people who have the ability to go to university but may not otherwise be able to attend due to financial constraints.

Structure of this response

We have not answered all of the questions which were set out in the Call for Evidence. We have focused on those questions for which we have the strongest evidence. We have categorised these into sub-headings which also show the questions which they relate to. Where possible we have also included examples of best practice in Scotland for the Select Committee’s consideration.

Overview of the charity sector (Q.1 and Q.2)

The charity sector in the UK is incredibly diverse and has a vital role to play in almost all areas of life. In Scotland alone there are an estimated 45,000 voluntary organisations ranging from small grassroots sports clubs and community groups to housing associations and major social care providers. These carry out a range of activities which benefit civic society, including:

- Improving the quality of people’s lives by supporting and empowering individuals and communities, including the most vulnerable in our society.
- Producing and contributing to research regarding the root causes of issues in society and potential solutions.
- Promoting and supporting millions of volunteers across the UK. This includes supporting people who are more likely to experience exclusion from volunteering.

422 Figure from the Scottish Council for Voluntary Organisations’ (SCVO’s) website: http://www.scvo.org.uk/news-campaigns-and-policy/research/scvo-scottish-third-sector-statistics/

423 For example, in a recent collaboration between Heriot-Watt University and charities for homeless people across the UK, the academics have asserted that they were able to generate more meaningful evidence by utilising the skills and knowledge of the charities. http://www.evaluationsupportscotland.org.uk/media/uploads/2016_01_06_case_study__ghn_and_heriot_watt_university_.pdf

424 There were an estimated 1,300,000 people volunteering in Scotland in 2014/15, in contrast to 138,000 paid staff. http://www.scvo.org.uk/news-campaigns-and-policy/research/scvo-scottish-third-sector-statistics/
and other areas of society. Evidence has shown that this can benefit the organisation, the service users, and the individual volunteers.\textsuperscript{425}

There is also an increasingly important role for the Third Sector to play in the on-going public service reform which is taking place across the UK. In 2011, the ‘Commission on the Future Delivery of Public Services’ (the Christie Commission) asserted that public services in Scotland need to be re-designed in order to meet demand as well as helping to address the root causes of inequalities.\textsuperscript{426} To enable this shift of focus towards prevention rather than acute intervention the charity, public and private sectors must all work together more effectively to share resources and improve outcomes for individuals. In recognition of this the Scottish Government has placed increasing importance in the charity sector within the on-going public service reforms, including Community Planning\textsuperscript{427} and Health and Social Care Integration.\textsuperscript{428}

**Challenges facing the charity sector**

While public service reform presents a number of opportunities to the charitable sector it also brings some challenges. For example, local authorities in Scotland are moving away from grant funding to a process of commissioning and tendering. This is negatively impacting on smaller charities which cannot compete with larger organisations in terms of capacity to complete tenders or costs. In addition there is also increasing demand for the services of charitable organisations which is in part due to reduction in local authorities’ non-statutory services such as youth work. As a result, many charitable organisations are struggling to meet demand with their current resources.

In 2015, as part of our recent strategic review, we issued an electronic survey to our existing and previous grant holders. This was sent to a total of 964 organisations and we received 645 anonymous responses (a response rate of 67%). Organisations were asked to highlight the main challenges that they faced as charities. They were provided with a list of options and were able to select up to three. Responses were as follows:

<table>
<thead>
<tr>
<th>Challenge</th>
<th>% of respondents stating this was one of their three main challenges</th>
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<tbody>
<tr>
<td>Lack of funding for core costs</td>
<td>85</td>
</tr>
<tr>
<td>Short term nature of funding</td>
<td>63</td>
</tr>
<tr>
<td>Lack of funding for non-deliverables e.g. planning</td>
<td>47</td>
</tr>
<tr>
<td>Unable to meet demand for services</td>
<td>37</td>
</tr>
<tr>
<td>Insufficient time for reflection and planning</td>
<td>32</td>
</tr>
<tr>
<td>Lack of skills/knowledge and other resource to monitor and evaluate work</td>
<td>10</td>
</tr>
</tbody>
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\textsuperscript{427} [http://www.gov.scot/Topics/Government/PublicServiceReform/CP](http://www.gov.scot/Topics/Government/PublicServiceReform/CP)
\textsuperscript{428} [http://www.gov.scot/Topics/Health/Policy/Adult-Health-SocialCare-Integration](http://www.gov.scot/Topics/Health/Policy/Adult-Health-SocialCare-Integration)
In particular, organisations highlighted the challenges that specific elements of the funding environment presented them with. The short term nature of funding and the fact that many funders only part-fund an activity, meant that fundraising and managing funding relationships can take up a disproportionate amount of time and resource within the organisation. There was clear demand for funders to invest for longer periods of time (at least three, but ideally five+ years) and for more funders to fully fund projects or services. Respondents also highlighted a preference for more core funding to be available and for funders to fund “what works” rather than always seeking new and innovative projects.

Respondents also noted that short-term funding meant they were less able to recruit and retain quality staff, and were prevented from making longer-term plans which met the needs of their communities and clients. There was a sense that, in order to be sustainable, charities were being forced to ‘chase funding’ and were potentially moulding their services to suit particular funds rather than accessing funds which met their clients’ needs.

Narrative responses highlighted the challenges of continually being asked to make efficiency savings – particularly in relation to local authority contracts – and how this was arguably at odds with the desire to deliver quality. Many charities saw this as being a potential conflict.

**Developing skills and knowledge in the charity sector (Q.4, Q.5, Q.7 and Q.10)**

While funding is clearly an important issue for the charity sector – and one which needs to be addressed if we want to improve sustainability of the sector – we are also aware that in some cases non-financial support is also required to increase the capacity and sustainability of charitable organisations. One example of this is our ‘Legacy 2014: Sustainable Sport for Communities Fund’ which is a partnership between the Scottish Government and The Robertson Trust. It is being supported by an Advisory Group made up of representatives from Scottish Government, The Robertson Trust, sportscotland, Senscot and Social Investment Scotland. The programme has identified that there are two main areas where organisations can face barriers if they decide to develop new areas of work or new ways of working: capacity and resources; and skills and knowledge. Supporting organisations to strengthen their governance is important to improve their services and ensure their long-term sustainability.

Through our own Partnership Awards we have also found that supporting organisations to develop their self-evaluation skills has also enabled them to become more reflective and has the potential to develop a process of learning and improvement across their activities. The value of this is reflected in a recent survey to explore public attitudes to charities that was commissioned by OSCR – the Scottish Charity Regulator. Over 1,000 members of the public were surveyed and of those 72% asserted that seeing evidence of what charities are achieving would improve their levels of trust in the sector. In addition to this, respondents to The Trust’s own survey highlighted the need for charities to be more


outcome and evidence focused and to concentrate on what they know works and not just innovating new services in order to access funding. As charities and public sector bodies become more focused on demonstrating the difference they are making we believe that this will be an increasingly important area of support for the charity sector. Promoting and supporting self-evaluation and impact measurement will enable continual improvements of services as well as transparency about how work is benefitting individuals and communities.

We have found that there is an array of support available to organisations, for example around impact measurement and governance. Despite this some organisations do not know where to go first to get the relevant support, they may find that it is too expensive to access or they may not be aware that they could benefit from additional support. There is potentially a role for funders and intermediaries to play in proactively signposting charitable organisations to appropriate support which meets their needs.

**Social Investment (Q.8)**

With increased demand for public and charitable services, coupled with an austerity agenda and shrinking public sector budgets, The Robertson Trust recognises the importance of considering new models of funding in order to support sustainability within the sector. We recognise that it is important to bring new money into the sector to enable a move to preventative services and improve outcomes for individuals and communities. We have been involved with project managing and evaluating eight Public Social Partnerships (PSPs) as well as working with others to explore alternative models of funding for Scotland with the aim of bringing new money into the sector to fund ‘change’ programmes. On 1st September 2016 we hosted an event with attendees from the charity, public and private sector to identify potential models for implementation in trial sites.

Some of our learning around PSPs to date includes:

- Charitable funders and charitable organisations still have questions about the potential benefits and risks of engaging in PSPs, Social Impact Bonds (SIBs), and other alternative funding models. There are concerns that the models that exist do not always align with funders’ aims and objectives. Moreover, some funders wonder if they may achieve more by investing their funds conventionally and spending their revenue on more traditional grant-making than they would by investing their endowment in SIBs or other social investment models.
- Both PSPs and SIBs require significant time, money and other resources to set up. In most cases PSPs have led to improved partnership working but only when time and resources were provided to enable early conversations to develop a shared vision and a joined-up approach to service delivery.
- Whether successful services developed through the PSP or SIB model will secure sustainable funding after the initial pilot period is still largely in doubt. As a result, The Trust has been working with others to develop a contract for PSPs which should


ensure that successful projects which met agreed outcomes are sustained beyond the pilot period by the relevant public sector body.

We suggest that there is a need to explore new models of funding which build on the strengths of PSPs and SIBs but which remove some of the current barriers for engagement. We also recommend that independent Trusts and Foundations should be included in conversations about what these alternative models might look like. Including charity funders at an early stage will increase the likelihood of them being willing to invest in the alternative models.

**Lessons from Scotland** (Q.10)

The relationship between the Office of the Scottish Charity Regulator (OSCR) and charities in Scotland appears to be more collaborative than that which exists with the Charities Commission.

In Scotland we are fortunate in having good access to both politicians (including Ministers) and senior civil servants. This enables third sector organisations and funders to engage in policy making discussions through sharing learning and experiences. The ability to give evidence to Committees is particularly beneficial.

Social Investment has been highlighted elsewhere in this response but this is an area in which Scotland has taken a very different path to the rest of the UK with little appetite for Social Impact Bonds and other Payment by Results models. Instead attention is being given to other issues: how to bring new money into the sector; co-production of outcomes and targets by third sector service deliverers and public sector commissioners and agreement on how successful services will be sustained in the longer-term should they meet the agreed outcomes and targets. The resources of Trusts and Foundations can be used to provide bridging finance as it takes time to move resources from intensive and expensive reactive services to early action preventative support.

**Recommendations**

In order to ensure sustainability of the charity sector we recommend the Select Committee considers the following:

- **Funding of the charity sector** – there needs to be more emphasis on long-term funding (at least three years) with more opportunities for organisations to access core funding and to deliver established projects and services with a proven track-record.

- **Develop further alternative models of social investment** – there are still some issues which act as barriers for charitable funders and charitable organisations to engage with PSPs and SIBs. As a result, there may be advantages in exploring models of alternative funding which retain the strengths of PSPs and SIBs but better meet the needs of charitable funders, charitable organisations and the public sector. However, when considering alternative models it is important to include all key stakeholders (including charitable funders) from the outset.
Enabling partnership working – cross-sector partnership working is becoming increasingly important but it takes time for the individual partners to develop a shared vision, outcomes and targets. Time and resources need to be given to partnerships to support and enable this vital part of the process.

Promote and support impact measurement – often self-evaluation is only seen as a reporting requirement for funding that has been received. In contrast, we highlight self-evaluation and impact measurement as an important part of a charitable organisation’s daily activities because it enables them to adapt and strengthen their services based on the evidence they are gathering. To be effective, however, charitable organisations need to have access to skills training and peer-support as well as the money and other resources required to embed this approach. Funders (both charitable and public sector) also have an important role to play through the types of evidence they request from their funded organisations.

5 September 2016
About Rogare

Rogare (Latin for ‘to ask’) is the University of Plymouth Hartsook Centre for Sustainable Philanthropy’s fundraising think tank and the home of Critical Fundraising – the discipline of critically evaluating what fundraisers know, or think they know, about their profession.

Our remit is to explore under-researched and ‘under-thought’ areas of fundraising. One of our key aims is to generate new practical ideas by pulling together the academic and practitioner branches of the fundraising profession.

Charities’ accountability to their donors, beneficiaries and the general public

Executive summary

This evidence submission focuses specifically on fundraisers’ accountability to their donors, beneficiaries and the general public.

Fundraisers have different duties to donors and beneficiaries, principally:

- To beneficiaries, to ensure a charity has sufficient income to provide the services and products beneficiaries rely on.
- To donors (and non-donors), not to subject them to undue pressure to donate.

Fundraisers therefore need to be accountable to both groups for the effective and ethical discharge of those duties.

Currently however, there are structures and mechanisms – fundraising’s codes of practices and regulatory oversight – that allow fundraisers to be accountable only to their donors.

From the regulatory perspective, this is partly because regulatory bodies have operated with a ‘consumer protection’ ethos, seeing their role solely as protecting donors from fundraising practice, but having no duty to beneficiaries.

To ensure fundraisers can be accountable to beneficiaries, a framework needs to be established to deliver this accountability.

But that requires a change in regulatory ethos from ‘consumer protection’ to one of regulating a process of ‘donation’, in which donors and beneficiaries are equal stakeholders.

1 Introduction

1.1 What we are focusing on

1.1.1 We are choosing to respond to a specific part of this consultation – charities’ accountability to their donors, beneficiaries and the general public (section 6) – because this...
is the basis of a major review of fundraising’s professional ethics that we are currently conducting\(^\text{435}\).

1.1.2 Our evidence is therefore couched specifically in terms of fundraisers’ accountability to their donors, beneficiaries and the general public.

1.1.3 This is not to deny or discount that charities have other types of accountability to these stakeholder groups (some of which will be touched on in this evidence submission). However, in light of last year’s ‘fundraising crisis’ and the continued effect of the fallout on the fundraising profession, we consider it important that the committee consider fundraiser accountability in its own right.

1.2 Donors and ‘general public’

1.2.1 We contend that it is possible to group ‘donors’ and ‘general public’ within the same stakeholder heading. All donors are also members of the general public, and the general public is also composed of people who either already do give to charity (i.e. they are donors), or could give to charity if they don’t already do so (i.e. they are potential donors). Around two thirds of British adults give to charity in any given month (CAF/NCVO 2011, 2012), and research into the number of British adults who donate in any given year puts the figure upwards of 90 per cent (Pharoah et al 2005, p29, Nestlé/MORI 2000).

1.2.2 Further to this, some members of the public who are currently donors to some charities will be only potential donors to other charities. It is difficult – though of course not impossible – to conceive of a set of accountabilities that fundraisers have to their donors, but not to the general public, and vice versa. Therefore, henceforth in this submission, when we refer to ‘donors’ we take this to include donors, potential donors, non-donors (who can be construed of as ‘donors who give nothing’) – these three groupings constitute the general public.

1.3 What is meant by ‘accountability’?

1.3.1 ‘Accountability’ has been described as a “complex and chameleon-like concept” (Mulgan 2000, p555) with varied meanings and applications, and without going into a full literature review of these various concepts, we feel we should at least sketch out a concept of accountability that will inform this evidence submission.

1.3.2 At its simplest, ‘accountability’ refers to “answerability, blameworthiness, liability and expectation of account giving”\(^\text{436}\). Accountability can also be can described in terms of two dimensions: answerability and enforcement (Schedler 1999, p14). Answerability is the obligation to inform and explain, and involves acting in a transparent way and justifying

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\(^{435}\) This review (MacQuillin 2016) will not be published until 19 September 2016. An advance draft copy is embedded in the Appendix to this evidence submission.

\(^{436}\) [https://en.wikipedia.org/wiki/Accountability](https://en.wikipedia.org/wiki/Accountability) - accessed 30.8.16
actions (ibid). Enforcement describes the capacity of “accounting agencies” to impose sanctions as punishment for improper behaviour (ibid, p15).

1.3.3 In submitting this evidence, we lean towards accountability to donors and beneficiaries meaning how charities should be answerable (in the sense of being required to transparently justify) for their actions to both stakeholders, rather than whether either stakeholder group (or someone who speaks on their behalf) should have authority to sanction charities for a failure of accountability. However, we do not dispute or deny that fundraisers, like any professionals, should be accountable, in the enforcement sense.

1.3.4 Combining both dimensions of answerability and enforcement, accountability can be more formally described as: (Schedler 1999, p17):

*A is accountable to B when A is obliged to inform B about A’s (past or future) actions and decisions, to justify them [answerability], and suffer punishment in the case of eventual misconduct [enforcement].*

1.3.5 Our evidence focuses on the accountability that comes from how fundraisers discharge the duties that they owe to their donors and beneficiaries. Fundraisers must be held accountable for ethically and successfully discharging these duties.

### 2 Fundraisers’ ethical duties to donors and beneficiaries

2.1 The nub of the issue is that fundraisers owe different duties to their donors and beneficiaries.

2.2 Charities have a duty to fulfil their charitable mission, which generally involves providing services for their beneficiaries. Fundraisers ensure that charities have sufficient income to be able to provide those services. They therefore have a contractual accountability to the organisations for whom they work to reach their targets and income objectives. But they also have a moral accountability to their beneficiaries to achieve this. Beneficiaries should hold fundraisers morally accountable for any failure to fund the services they rely on.

2.3 This is the foundation of the new theory of fundraising ethics that Rogare has developed as part of its review of fundraising’s professional ethics.

2.4 There is surprisingly little normative theory development in fundraising ethics. What normative theory has been developed has tended to regard fundraising as ethical when it falls into one three main general ideas (MacQuillin 2016a):

*Fundraising is ethical when it maintains and protects public trust in fundraising (‘trustism’)*

*Fundraising is ethical when it gives priority to donors’ needs, wants, desires and wishes (the fundraising profession knows the best practice conception of this ethical idea as ‘donorcentrism’)*

*Fundraising is ethical when it brings meaning to donors’ philanthropy.*
2.5 Ethical thinking in fundraising – at both the academic and practitioner level – has primarily focused on fundraisers’ duties to their donors, and the profession has developed its own mechanisms by which fundraisers can be accountable to those donors, such as codes of practice (which contain the profession’s applied ethical prescriptions – which are founded predominantly on a combination of ‘trustist’ and ‘donorcentrist’ ethics).

2.6 Perhaps as a result of the fundraising profession’s prioritisation of duties to the donor, it is not surprising that regulatory mechanisms – whether they be self-regulation in the form of the now-defunct Fundraising Standards Board, or independent regulation through the Fundraising Regulator (the FRSB’s successor) – also prioritise(d) the wishes of the donor: the Fundraising Regulator has repeatedly said that its role is to represent the voice of the donor, or to ‘speak up for’ donors (Birkwood 2016a), and the public will be consulted on changes to the fundraising code of practice (Birkwood 2016b).

2.7 Both regulatory bodies have adopted a ‘consumer protection’ ethos in their approach to regulating fundraising. By doing this, they have made an assumption that donors are analogous to consumers, and so focused on making fundraisers accountable to donor-consumers at the expense of any duties to beneficiaries.

2.8 Yet what is quite strikingly noticeable is that rarely are charity beneficiaries even mentioned in theorizing around fundraising ethics, let alone any duties that fundraisers might owe beneficiaries described.

2.9 Rogare’s conception of fundraising ethics attempts to bring the donor back into the frame. Our theory attempts to identify and describe fundraisers duties to their donors and their beneficiaries and develop ethical decision-making frameworks that will allow fundraisers to balance these duties when they come into conflict, since it is the tension between what the donor wants and what the beneficiary needs that results in most ethical dilemmas in fundraising.

2.10 Fundraisers principal duties are:

To beneficiaries, to ensure a charity has sufficient income to provide the services and products beneficiaries rely on.

To donors (and non-donors), not to subject them to undue pressure to donate (this obligation is currently enshrined in the code of practice, along with obligations not to make “unreasonably persistent approaches” and not to make “unreasonable intrusions” into a person’s privacy – s1.2f [The Fundraising Regulator, 2016, s1.2f]; other duties include being honest, etc).

2.11 Therefore under ‘Rights Balancing Fundraising Ethics’:

*Fundraising is ethical when it balances the duty of fundraisers to solicit support on behalf of their beneficiaries, with the right of the donor not to be subjected to undue pressure to donate.*
2.12 Rather than being unethical when fundraising doesn’t prioritise the donor, under Right Balancing Fundraising Ethics, fundraising is unethical when it does not strike the correct balance, which is an overall balance of outcomes that doesn’t significantly disadvantage either donors or beneficiaries.

2.13 For example, a fundraising campaign that repeatedly solicited donors who had requested not to be contacted would be unethical because the balance does not protect donors from unreasonable intrusion into their privacy nor unreasonably persistent approaches. But regulation that prevented fundraisers from contacting vast swathes of people would also be unbalanced and therefore unethical.

2.14 Therefore, to ensure that fundraisers can be ethically accountable to both their stakeholder groups of beneficiaries and donors, the structures that hold them accountable must contain consideration of both groups.

3 Donors or consumers? And does this change how we consider accountability to them?

3.1 At present, such dual-accountability mechanisms do not exist since regulatory bodies adopt a consumer protection regulatory ethos, regulating fundraising as if donors are the same as consumers and thus require the same degree of protection and the same mechanisms of accountability (not just ‘answerability’, but also liability, blame, sanction and enforcement).

3.2 However, donors are not consumers, and so do not require equivalent levels of ‘consumer’ protection.

3.3 Consumption is (Lee et al 2011):

*The process by which people acquire, use and dispose of commodified goods including ideas, services, products, brands and experiences.*

3.4 A consumer is therefore someone who acquires, uses (i.e. they acquire for their own use) and disposes of commodified goods. This doesn’t describe the process of donating to a charity: donors rarely acquire and use commodified goods from a charity, and when they do (such as buying from a Christmas catalogue), they are already protected by established consumer protection legislation. But it does describe the process that beneficiaries go through when they acquire and use a nonprofit organisation’s products and services. Beneficiaries are a charity’s true consumers.

3.5 So what are donors?

3.6 To understand what donors are, we need a concept of donation that is analogous to Lee et al’s concept of consumption. If we adapt that concept, we might arrive at something like this for an analogous concept of ‘donation’:
The process by which people voluntarily provide resources to nonprofit organisations to enable commodified goods (including ideas, services, products, brands and experiences) to be acquired, used and disposed of by the nonprofits’ beneficiaries.

3.7 This is quite different from the definition of consumption, principally because it transfers the focus from ‘own acquisition, use and disposal’ (in consumption) to acquisition, use and disposal ‘by others’ (in donation).

3.8 ‘Consumption’ is therefore a bilateral transactional relationship (an exchange of commodified goods between consumer and the supplier of goods, an exchange that is usually subject to a contract that grants the consumer certain protections).

3.9 ‘Donation’ is a trilateral relationship, but it’s a transfer rather than a simple transaction (resources are transferred from donor to beneficiary via a charity, which turns the resources provided by the donor into commodified goods, a process that is rarely governed by a contract either with donors or beneficiaries, though it sometimes is – for example corporate sponsorship and major donor naming rights).

3.10 To enable fundraising to be truly accountable to donors and beneficiaries, the regulatory mechanisms that hold fundraisers to account need to facilitate this.

3.11 At present, they only facilitate accountability to donors, because they are operating with a consumer protection ethos, and are regulating the process of consumption. But to enable true accountability to donor and beneficiaries, what is need is regulation of the donation process.

3.12 This donation process will inevitably generate tensions between the needs of beneficiaries and the wishes of donors.

3.13 In a nutshell, beneficiaries need fundraisers to raise as much money as is needed, as cost-effectively as possible, to provide the services they require.

3.14 Donors may want to be asked less, asked in different ways or at different times, or not asked at all, which may lead to less income being raised or money raised less cost-effectively.

3.15 When fundraisers are unable to successfully resolve these ethical dilemmas by themselves, accountability to both groups requires a regulatory process that transparently demonstrates how the interests of both were taken into account and balanced in the final resolution.

3.16 At present however, fundraisers can only ultimately be accountable to their donors and not their beneficiaries, because the mechanisms that regulate their profession only provide for accountability to donors.

3.17 This can be clearly seen by returning to Schedler’s (1999, p17) description of accountability:
A is accountable to B when A is obliged to inform B about A’s (past or future) actions and decisions, to justify them, and suffer punishment in the case of eventual misconduct.

3.18 Fundraisers are obliged to inform donors (or accounting agencies acting on their behalf – such as the Fundraising Regulator, Fundraising Preference Service, Information Commissioner’s Office, Advertising Standards Authority etc) of their actions and decisions, and face punishment from these accounting agencies for misconduct.

3.19 But no fundraiser is similarly obliged to inform any of his or her beneficiaries about their fundraising actions, nor to justify them to beneficiaries (for instance, why they chose not to conduct a particular fundraising campaign in the teeth of, say, media criticism). And if fundraisers fail to successfully discharge their duty to beneficiaries to generate sufficient funds to provide services, they face no sanction from beneficiaries or any accounting agency acting on behalf of beneficiaries.

4 Balancing accountabilities

4.1 There is a further issue regarding fundraisers’ various accountabilities. The International Statement on Ethical Principles, formulated by the American professional organisation the Association of Fundraising Professionals, and to which the UK’s Institute of Fundraising is a signatory, aims to “foster the growth of a worldwide fundraising community dedicated to accountability, transparency and effectiveness”. It states that fundraisers ought to be (AFP 2006, s2):

“Strictly answerable to their donors, their beneficiaries and their organisations.”

4.2 Schedler (1999, p14) says ‘answerability’ is the closest synonym to ‘accountability’ that is used almost colloquially. It is difficult to say, then, whether the International Statement on Ethical Principals requires fundraisers only to be ‘answerable’ (in Schedler’s sense) to beneficiaries, donors and organisations, or ‘accountable’ (comprising the dimensions of answerability and enforcement).

4.3 This is problematic. Fundraisers can only be ‘answerable’ (in the sense of fully accountable, which requires an apportionment of blame and liability if they do not act in the best interest of a particular group) to all three stakeholders when their interests align. When those interests do not align, fundraisers need a framework that will allow them to choose the best course of action that achieves the best overall outcome, and having done that, mechanisms need to be in place to communicate and transparently justify that decision.

4.4 This requires the fundraising profession to adopt a more coherent normative theory of fundraising ethics than it has previously done, one that considers its duties to beneficiaries as well as donors, and we believe the theory of Rights Balancing Fundraising Ethics we are developing at Rogare fits this bill.

5 Conclusions
5.1 The consultation document for this inquiry asks:

How can charities ensure they are properly accountable to their beneficiaries, donors and the general public?

And further asks:

What, if any, changes might mean for current arrangements?

5.2 Our view is that fundraisers cannot be properly accountable to both beneficiaries and donors unless both their normative theories of professional ethics and their independent regulation allow for accountability to their beneficiaries.

5.3 Currently both are predicated only (or at least predominantly) on accountability to the donor.

5.4 Therefore, a change in ethos and mindset is required to bring the interests of the beneficiary fully into consideration. It is not sufficient to utter soundbites and platitudes about ‘doing right by the beneficiary’, first if there are no mechanisms and process to ensure that the right thing is actually done, and second if beneficiaries are unable to hold charities accountable for not having done the right thing.

5.5 Fundraisers cannot be fully accountable to their beneficiaries until they as professionals develop their own professional ethics that enshrines this accountability.

In practical terms, this means that fundraisers need to engage in more, and more considered, debate about their professional ethics, which is what Rogare’s review of fundraising ethics aims to do.

5.6 But nor can fundraisers be fully accountable to their beneficiaries if their regulation forces them to be only accountable to donors.

5.7 Therefore, we believe the Fundraising Regulator needs to relinquish its policy of being the ‘voice of the donor’ and to accept that its role is not a consumer protection one. Rather than regulating a bilateral ‘consumption’ process in which donors acquire commodified goods from a charity (which, generally, they do not), the Fundraising Regulator should regulate a trilateral process of ‘donation’, in which donors allow charities to convert their donations into commodified goods for use by beneficiaries.

5.8 This will necessarily take into account the interests of beneficiaries and also necessarily provide mechanisms that will ensure accountability to beneficiaries.

5.9 This means ensuring that fundraisers are not only answerable for their actions, but that they are provided with appropriate opportunities to transparently justify their actions to both donors and beneficiaries. The regulator becomes an overseer of Schedler’s first dimension of accountability (answerability), rather than someone who simply wields a big enforcement stick in response to a failure to do what donors want fundraisers to do (though of course it will retain its enforcement powers).
5.10 We make no recommendation here as to what such mechanisms could look like or how they may be brought about, though they could, for example, include consulting beneficiaries on changes to the code of practice in the same way the general public are to be, or commissioning more research of the type conducted by Breeze and Dean (2012) into service users’ (beneficiaries’) views on fundraising. We do not think this type of charity regulation currently exists anywhere in the world, so developing it would be a challenging and innovative process.

5.11 However, it can only happen if there is a commitment from the current regulator to be part of that process of change, which is what we are calling for here.

Appendix

Advance draft copy of the first white paper from Rogare’s review of fundraising ethics. This will be formally launched on Monday 19 September [held by Committee staff and available on request].
References


Rogare Associate Members

Rogare is supported in its work by a number of Associate Members – partners to the fundraising sector that share our critical fundraising ethos. Our Associate Members are:

- **Bluefrog** – creative agency (UK)
- **DTV Group** – Direct response agency (Global)
- **Ethicall** – telephone fundraising agency (UK)
- **HOME Fundraising** – doorstep fundraising agency (UK)
- **Pursuant** – strategic and creative fundraising agency (USA – lead associate member for North America).
- **Rapidata** – regular giving specialist (UK).

We also have a research association with the **Resource Alliance**.

5 September 2016
About Mencap
We support the 1.4 million people with a learning disability in the UK and their families and carers. We fight to change laws and improve services and access to education, employment and leisure facilities, supporting thousands of people with a learning disability to live their lives the way they want. See www.mencap.org.uk for more information.

We are also one of the largest providers of services, information and advice for people with a learning disability across England, Northern Ireland and Wales.

About learning disability
A learning disability is caused by the way the brain develops before, during or shortly after birth. It is always lifelong and affects someone's intellectual and social development. It used to be called mental handicap but this term is outdated and offensive. Learning disability is not a mental illness. The term learning difficulty is often incorrectly used interchangeably with learning disability.

Executive Summary

1. The charity sector faces challenges across governance, fundraising and delivery of core purpose. The charitable sector is striving to meet those challenges and as a core component of the fabric of British life, a major innovator, employer and service provider, it is vital that this succeeds. Failure would have a highly negative impact on some of the most vulnerable people, whom charities seek to support.

2. For Mencap, as an organisation that seeks to influence policy and practice, as well as deliver support to thousands of people with a learning disability; we see challenges in the sustainability of social care services as a major threat to the quality of life for people with a learning disability. It is imperative that the Government resolve to properly support, financially, and incorporate, systematically, care services into the wider package of support. Failure to do so will also have dire consequences for the health service.

3. Fundraising is fundamental to allowing charities to operate independently; however, there are many strains on both the cost side of financial management as well as the availability of funds and competition. We are clear that the sector needs to innovate to ensure financial security for the future as well as improve capability and ensure public trust in fundraising methods.
4. Britain’s potential exit from the European Union also provides challenges. A substantial number of Mencap’s workforce are European Citizens whose status is uncertain and the political situation will make it harder to recruit from abroad. A loss of EU membership would also bar access to the European Social Fund, which is a major financial support in parts of the UK, and on which many services rely. The economic and social consequences of losing ESF funding is very likely to mean greater demand on services across the UK. The Government must carefully assess and manage the impact of withdrawal from the EU, or the consequences for people the charitable sector is working with, will be very significant in terms of disruption to or closure of services they rely on.

5. Government must consider carefully the impact that current policy development in key areas is and will have on charities’ ability to deliver essential support for people. We highlight a number of areas in this response, including changes to funding for supported housing, which have the potential to be highly damaging. We also raise our very serious concern around the state of funding for social care services, and the impact other government policies, such as the implementation of the National Living Wage, are having on the sustainability of both the care and health sectors.

6. Finally, competent governance is perhaps the most important factor in ensuring sustainability into the future. Mencap is clear that our governance structure provides rugged oversight with sufficient safeguards and the right leadership to identify potential threats to the charity’s future and respond accordingly. But we also see the potential for greater co-operation and the need to respond to the risk of a lack of resource across the sector to ensure robust governance. It is important that charities collaborate to ensure that governance failures can be corrected and best practice shared.

7. Mencap welcomes the establishment of this Select Committee and we are happy to provide whatever support, assistance or information the committee may request. There is much Government, local and national, can do to support the voluntary sector and help charity to improve lives. Should the committee find it useful we would be happy to provide additional evidence, in writing or orally, as the committee requires.

About the Royal Mencap Society

8. Mencap is the UK’s leading learning disability charity. We support the 1.4 million people with a learning disability in the UK and their families. We fight to change laws and improve health and care services as well as increase access to education and employment. We directly support around 5,400 people with a learning disability to
live their lives the way they choose and assist the aspirations people with a learning disability have.

9. We provide high-quality personalised support and advice for people with a learning disability and their families, and together we campaign for an equal society. Our direct support services encompass advocacy, health, education, housing, leisure and employment.

10. Mencap traces our origin back to 1946 and a mother named Judy Fryd whose daughter had a learning disability. Judy wrote a letter to Nursery World magazine inviting other parents to contact her and many wrote back expressing their sorrow and anger at the lack of services for their children. Mencap is a company (registration number 550457) limited by guarantee and a registered charity regulated by the Charity Commission (registered number 222377) and with the Office of the Scottish Charity Regulator (registered number SC041079).

11. Mencap has a number of subsidiaries, which it may aid the committee to be aware of; Golden Lane Housing (GLH) who provides homes for more than 1500 people with moderate to complex support needs. Mencap Trust Company Limited, (MTC) MTC, through its partnership with financial and legal services has supported families to set up over 2,000 trusts ensuring that loved ones continue to have the quality of life their families would want for them. Mencap Limited and Mencap Promotions Limited are trading subsidiaries for merchandise and events.

**Role of charities**

12. The charitable sector is a vital part of the fabric of British life, heightening social and community cohesion through social responsibility and acting as a focal point for issues, which matter to specific groups. Government alone, however effective, cannot run a country without positive citizen engagement and involvement. An active civil society including a thriving voluntary sector are the sentinels of any country and are vital in holding public representatives accountable.

13. Charity espouses the best of our community, often being the harbinger of social progress; Examples include the Fawcett Society which led the way on gender equality and equal pay and Stonewall which changed attitudes and entrenched LGBTQ rights. Mencap works to improve the rights of people with a learning disability and their quality of life. Charities achieve this through their supporters, who bring expertise, empathy and a will to drive issues and achieve change.

14. The sector empowers and supports those who need assistance; channelling the commitment and passion of those working and volunteering to that end. In England and Wales there are well over 200,000 charities regulated by the Charity Commission which have a total annual income of £64bn meaning that the sector is a major part of Britain’s economic and social life.
15. Charities are a vital link between civil society and government, often filling the gaps between government provision and personal need. In the past charities provided support and services in addition to government provision but increasingly charities are partners in provision, often commissioned to provide core government services.

16. As experts by experience the sector also has a role in identifying where the system is failing and communicating this to decision makers in Parliament and Whitehall, providing a channel of feedback and personal experience. This role is important and vital, no less so during a time of government spending restraint where the vulnerable are at risk of hardships. The campaigning and influencing work charities undertake is vital to improving standards, quality of life and resolving systematic problems.

17. Charities are also important innovators, with freedom to try new approaches in service delivery in direct contact with beneficiaries and service users which leads to improved outcomes for individuals, families and communities. This is innovation which improves lives in response to individual need, not driven or constrained by a profit motive.

18. The role, status and understanding of the value of volunteering has changed in many ways. Volunteering is seen as an important experience, providing vital workforce skills development for young people and those returning to the jobs market. It also offers a great opportunity for those in employment or with a professional portfolio of skills and knowledge to contribute to a worthy cause and invest in their local community. Volunteering offers a great pathway for people with a learning disability to move closer to their life goal of employment, by providing opportunities to develop practical skills for employability but also to build skills including team work, communication and initiative.

19. Mencap’s 600 plus volunteers play an enormous part in delivering our services. Spread across the organisation, 212 participate in Fundraising, 167 volunteer across a range of projects and services and 88 support one to one relationships with people with a learning disability to achieve the lives they want to live. Mencap is committed to supporting more people to volunteer, developing the roles they deliver within our organisation and our volunteering culture that promotes the great benefits volunteering provides to our volunteers, especially those with a learning disability. We actively work with corporate partners to allow employees in business and industry to volunteer through structured programmes.

20. The third sector faces many challenges, including balancing a desire to ‘do good’ for people they support with a focus on impact, driven by objective evidence. Obtaining adequate financing during a time of economic recovery and possible retraction, restraints in public spending affecting service funding and delivery and government policies are all major obstacles.

21. There is also a need for Charities to engage proactively and positively with the public, especially in light of well published poor practice in the governance and collapse of Kids Company and Broken Rainbow. There is a need for a more mature
debate about the complexity and seriousness of issues the third sector seeks to tackle and the support charities need to successfully engineer positive outcomes, including in how they are monitored and overseen.

22. For charities which bid for and deliver services there is also change in balance between charitable providers and the public sector, with greater co-operation between the two. Whilst all charities in the third sector are charitable organisations, they are also non-profit businesses and must professionalise as such, ensuring competent oversight of budgets, making sure strategic objectives are delivered, targets are met and delivering impact and value for money for those who support them financially.

**Challenges to delivery of services**

23. Mencap is first and foremost a charity directly supporting people with a learning disability. Most of Mencap’s interactions with people we support are in social care and other related support services and settings.

24. Mencap directly supports 5,412 people with a learning disability through support and care services. Mencap’s housing arm, Golden Lane Housing, has 1,547 tenants. 96% of Mencap’s services achieved full regulatory compliance with the Care Quality Commission (CQC) and 100% of the Care and Social Services Inspectorate Wales (CSSIW).

25. Mencap’s services are, on the whole, delivered through contracted services. Only 7% of people with a learning disability known to social services are in work and therefore it is very rare to find a person with a learning disability who is able to pay and provide for their own care or training. Mencap does also provide services supporting family and friends of people with a learning disability which is paid for through charitable donations.

26. In 2014/15 we worked with over 200 employers to support 507 people with a learning disability into a paid job. This is the highest number of jobs in any given year since the start of our employment services in 1974. In Northern Ireland we supported more than 600 people with a learning disability to experience the world of work with a range of employers across all sectors every year.

27. Many people with a learning disability need social care services to lead fulfilling and independent lives yet there is a chronic underfunding of social care which must be addressed. With the number of people with a learning disability needing social care services expected to increase by 25% by 2030 as life expectancy increases and the population expands, demands on care services will only increase. And yet since 2010 more than £4.6 billion has been removed from social care budgets and the

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number of people able to access care services has fallen by half a million since 2008/9, a reduction of 30%.438

28. Whilst funding through Local Authority precepts have been introduced the Local Government Association (LGA) said in February 2016 that “Council tax rises to pay for social care in 2016/17 will not bring in enough money to alleviate the growing pressure on the vital services caring for our elderly and disabled”439

29. There remains a social care funding crisis and a lack of integration between social care and health. The Government have announced more funding through a Better Care Fund in addition to the social care precept but this will not be introduced until 2017/18 and will initially only deliver an additional £100 million of funding. It will only deliver substantial amounts of funding, around £1.5 billion by 2019/20. In any case the gap in social care funding is expected to reach £3.5 billion by the end of this parliament in 2020.440

30. Meanwhile costs are increasing. The National Living Wage represents a supply side cost challenge and whilst Mencap supports a rise in, if not wages which exceed, the minimum wage for our social care workers, this must be matched by greater social care funding if core services and availability of those services are not to suffer. This is especially true as demand and need continues to grow. This issue can only be resolved through adequate funding of social care and Government action.

**Impact of Exit from the European Union on Delivery of Services**

31. Whilst it is too early to tell what the impact of Britain’s anticipated exit from the European Union will be in full there are a number of challenges to service delivery and charity sustainability resulting from Britain leaving the European Union.

32. For service delivery charities like Mencap a substantial number of staff will be European Citizens working in the UK. Whilst Mencap has not yet compiled exactly how many staff are EU citizens, the Kings Fund has estimated 6% of jobs in the social care sector are filled by EU citizens - 80,000 people in England alone. There are also regional variations of 12% (20,000 jobs) in London and 10% in the rest of the South East (21,000) but as low at 1% (1,000) in the north-east.441 There are an estimated 1.4 million social care employees in the UK.442

33. Clearly unless rights to remain for existing EU citizens working in the UK are maintained, which we note with concern that the government have not yet

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441 http://www.kingsfund.org.uk/publications/articles/brexit-and-nhs

guaranteed, social care and other providers in the charitable sector will face immediate employment shortages. It is also of material concern to charity staff whose futures are now uncertain.

34. Exit from the single market or additional immigration controls could also make it harder to recruit for a sector which is already facing a skills and positions shortage. Skills for Care said in their June report that “Employers continue to face challenges in recruiting to vacant posts for care worker and senior care worker roles despite in some cases paying above the National Living Wage (NLW).” And that there is “a situation where health is now competing with social care for the same recruits.” If the Government is to restrict immigration then a strategy to increase the domestic skills shortage is urgently needed.

35. Finally, whilst this issue will be discussed in more detail, withdrawal from the EU could also jeopardise service delivery focused charities who receive funding for services from the European Support Fund (ESF). Mencap delivers services in England, Wales and Northern Ireland that rely on that funding and we would encourage the Government to guarantee funding going forward, as they have done in some areas, such as agricultural subsidies.

**Challenges to Fundraising**

36. In financial year 2014/15 Mencap received £9,263,000 in donations, £437,000 in trust income, £1,222,000 in community and Big Lottery funding, £740,000 in funds from organisations and business, £11,769,000 in gifts in kind, £258,000 net profit from group companies and £88,000 from investments. These disparate sources of income total £23,777,000. By comparison Mencap received £165,548,000 in funding for direct support and other services from governmental or other contracted sources in the same financial year.

37. Mencap as a charity primarily provides contracted and specialist services supporting people with a learning disability and this is where the bulk of our income, expenditure and focus lies.

38. The vast majority of Mencap’s employment service work is funded through bidding for service provision and the bulk of this work is delivered through partnership in a sub-prime model, where a primary provider tenders out specific projects. There are around a dozen Mencap employment services in England under that model which rely on European Social Fund co-financing with the Big Lottery Fund, Central Government through the Department of Communities and Local Government or Work and Pensions or Local Authorities.

39. An Example would be a Mencap employment service in London started this year, worth £320,000 a year, supporting 300 people a year with learning disabilities through various activates to improve their chances of finding work. This is a service

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40. Charities are faced with a reduction in both income streams through government cuts in restricted income and an increasingly competitive marketplace for unrestricted income. This reduction in income could undermine efforts to address the root causes of particular problems, in turn making it very challenging to undertake early intervention programs, lead on innovative solutions or spend enough time with people to make lasting changes in their lives. We risk forsaking long-term solutions for immediate short-term gains out of necessity which we believe will only store up more problems and costs, both for charities and government, in the future.

41. Charities are pulled in many different directions and often experience mission drift leading them to focus on attracting income instead of remaining true to their core values. This balancing act has been made all the more difficult by the multiple contractual regulations surrounding public income. While it is vital to spend public money effectively and efficiently it must remain possible for charities to be in a position to challenge and reshape the commissioning processes and outcomes, however terms of tender have become more restrictive.

42. There are many charities which occupy the same policy space and try to operate on the same problems. This has issues with regard to the number of people able to provide effective governance, which is discussed later on in the document but also has implications for financial sustainability with a number of charities focused on raising support from a limited pool of donors. This could be addressed by closer cooperation or mergers.

43. Additionally, with so many charities attempting to seek funding, Mencap has encountered what the sector terms ‘donor fatigue’. In a crowded market place charities have to ensure brand loyalty, struggling to gain both awareness and continued support. Mencap’s challenge and that of other charities, is to engage and inform the public about our work and focus on what an individual’s support means to the people we directly support.

44. There are also cost factors. Larger charities are incredibly complex organisations with senior management often in charge of delivering services to large numbers of people across the country with a number of risks needing to be managed. Senior remuneration across charities is therefore high and they are also faced with covering the costs of the National Living Wage to frontline staff. Mencap supports paying its staff a fair wage for their work and is transparent about senior level pay across all of its directors.

45. We publish exact salaries for all of our Directors and our chief executive’s salary is carefully reviewed by our remuneration committee made up of independent trustees and the committee’s recommendation. The sector does, however, need to give consideration to the sustainability of increasing wage inflation at a senior level.
and if this represents best value, given limited financial resources, to meet strategic targets.

46. Charities also need to have clear and effective governance and management of risk. Charities which fail to innovate or respond to changing conditions risk losing out on income or becoming stagnant in terms of fundraising potential however there is a risk of failure of sustainability if risks are managed well. This requires effective Trustee level oversight. Commercial contracting offers one such example. In some cases contracting can open doors for charities to successful and sustained partnerships, while in other circumstances charities will not even cover costs through commercial contracting due to adversely competitive pricing structures.

**Impact on the Possible Loss of the European Social Fund**

47. A major source of revenue for Mencap services has been the European Support Fund. (ESF) With potential UK withdrawal from the European Union this valuable funding source may be lost. The ESF was set up to support helping people get better jobs and ensuring fairer living standards and job opportunities and to support young people and the long term unemployed. The ESF was scheduled to fund €4.9 billion of services in the UK between 2014 and 2020 although to what extent this funding is now at risk depends on the UK’s future negotiations.

48. Loss of this funding, without replacement by the UK Government, would lead to funding shortages and a loss of service capacity throughout the charitable sector.

49. Last financial year Mencap NI received nearly £700,000 of funding from the ESF to assist with financing employment services in Northern Ireland. This is match funded by the Department for Communities and Local Government, the 5 Health and Social Care Trusts in Northern Ireland and 2 Further Education colleges to a total value of £1,027,491 per year until March 2018.

50. ‘EmployAbility’ works with people with a learning disability, families and employers, helping trainees to develop their employability and, where possible, progress into paid employment. Since starting up in 1991, Mencap has used successive rounds of ESF funding to build the project’s geographical presence and now provides the only specialist training and employment service, for people with a learning disability covering all of Northern Ireland.

51. The project supported 324 people with a learning disability in the first year of current operation of which 21 entered paid employment (117% of target) and 59 entered long term voluntary work, FE or further training (104% of target) with above 90% levels of satisfaction.

52. ESF funding is particularly important for the charitable sector in Northern Ireland; around £45 million is provided from the ESF to 24 organisation to support 7,000
disabled people over 3 years, 40% of the total ESF funding for all projects in Northern Ireland.

53. British withdrawal from the European Union would eliminate ESF as a funding source for third sector providers. Mencap would call on the British Government to continue to underwrite existing projects reliant on ESF funding and to replace this funding once withdrawal from the European Union is complete. At present there are no contingency plans to replace this funding if it is withdrawn and ESF funded or part funded services would likely fail as a result.

54. Mencap is particularly concerned about the implications of a ‘Hard Brexit’ which would likely see ESF funding cease for current projects and leave charitable organisations under contract to deliver services in a difficult position, not to mention the impact on people supported by those services.

**New Fundraising Regulator**

55. Mencap supports efforts to improve trust in charity fundraising activity and has always taken steps to protect donor’s rights. Any new fundraising regulator must help to restore confidence but also facilitate the sector’s ability to contact potential donors and fundraise within accepted guidelines. Fundraising is important to allow charities to operate independently through unrestricted funding, however the sector as a whole must recognise that its fundraising efforts must be demonstrably transparent and ethical especially as door to door, street, phone or email marketing may be the only interaction some members of the public have with charities.

56. Mencap is keen to learn lessons from past failures and always seeks to maintain high levels of personal and organisational conduct in fundraising. This is especially important considering the vulnerability of the people we support and the need to safeguard our reputation as a trusted and valued provider of support and services.

**Social Investment Bonds**

57. Mencap, through Golden Lane Housing (GLH) has some experience of raising capital through Social Investment Bonds as a new avenue of raising money for a charitable purpose. This makes sense given the lack of availability of grants and the cost of commercial loans. GLH has innovated to raise investment to provide housing stock and adaptations for people with a learning disability by raising social investment bonds.

58. GLH was the first national charity to do so in 2003 and launched further bonds in 2013 and 2014 raising £21m in total. This latter bond was raised through the London Stock Exchange and closed early due to over-subscription. A further £100m bond and the 200 additional homes it would have provided have been postponed due to announcements made by the Conservative Government which affect Housing Benefit for those in supported Housing in the 2015 Autumn Spending Review.
A learning disability is a lifelong condition which needs individualised support, therefore GLH’s funding model needs long term sustainability. The alternative is more expensive provision in an in-patient unit which denies someone with a learning disability the chance to live an independent life in the community and exposes them to the sort of abuse which occurred at Winterbourne View.

Mencap believes that this route of funding, bringing in private capital for charitable ends, has a viable future in addition to traditional fundraising methods and contracted services and as an alternative to commercial borrowing, however the right regulatory and market conditions need to be in place to ensure that the bond both delivers it’s goal and ensures a return on investment.

Overview of Governance

59. Mencap complies with the principles outlined in the Code of Governance for Voluntary Organisations, which is approved by the Charity Commission. As such the trustee board, made up of 12 trustees and the chair has ultimate responsibility for governance.

60. It is important that Trustees understand the nature and complexity of the role they undertake. Trustees are appointed through an open and transparent recruitment process through a Nominations Committee. At least half of Mencap’s trustees are required to have personal or professional experience of learning disability and are appointed for four year terms of office with a limit of two terms. One of Mencap’s trustee’s has a learning disability and we view it as important that people with a learning disability are represented on our board and participate fully in oversight, bringing their lived perspective to bear and helping to improve our focus.

61. Whilst there are issues with challenges in making complex paperwork and oversight issues accessible it is vital that the Trustee Board is inclusive and Mencap is working to ensure that more people with a learning disability can serve on our Trustee Board in future and participate at all levels of our organisation.

62. There are clear distinctions between the role of trustees and the executive team. The board of trustees holds a range of reserved matters and delegates certain authority to the executive team in order to run the organisation efficiently. Matters such as policy, strategy and budgets are prepared by the executive team for consideration and approval by the trustees, who then monitor the implementation of these plans.

63. There are also a number of board committees with clear terms of reference and role descriptions for members. They have elected members and co-opted members who are appointed for their particular skills and knowledge and cover audit, finance, nominations employment and remuneration and report to the trustees.

Trustees
64. At Mencap the Board of Trustees has an oversight and scrutiny role but also importantly sets direction for the charity, the charities strategic focus and operation. It is also important that Trustees take a wide view, able to see the bigger picture and steer the charity accordingly.

65. The Trustee Board has ultimate responsibility for the running of the organisation and Mencap’s committees and executive team both feed up to the Trustee Board regularly and, with minutes of meetings provided no less than quarterly, to enable the board to fulfil its oversight function.

66. New trustees are expected to participate in a wide-ranging induction programme, including visits to Mencap services, meetings with the chief executive and committee chairs. Mencap also offers bespoke and group training and development on request and to ensure the board of trustees are fully up to date on their statutory obligations. New trustees are also provided with a governance handbook. This book outlines the main policies and governance structure using the Governance code as a framework. For new trustees, these opportunities are also offered to committee members and other trustees throughout the year.

67. There is a recognition that this model is not sustainable for all charities. There are some 165,965 charities registered with the charity commission, which on Mencap’s model would require nearly two million trustees at any one time.

**Collaboration between Charities on Governance**

68. Whilst Mencap’s model as a larger charity may not be suitable for all charitable organisations some consideration might be given to greater collaboration between charities and a sharing of resources, expertise, training and knowledge to improve governance throughout the sector. It is not realistic to assume that all charities are able to provide the necessary training and support to ensure that people who want to do a good job in their fiduciary duty are able to do so. Mencap believes that such an initiative would foster closer links between charities as well as improve governance and sharing of best practice.

69. More could also be done to encourage members of the public to put themselves forward as Trustees in the charitable sector and to provide additional support for trustee oversight from government. Mencap agrees with the Government position that Charities should be self-regulating with strong Trustee oversight as set out in the Government Response to Public Administration and Constitutional Affairs Committee report: ‘The collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission, and Whitehall’.

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444 Recent charity register statistics: Charity Commission


445 http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubadm/980/980.pdf
70. The Government can support this aspiration by helping to promote both the benefits of volunteering as well as the value trustees bring in their oversight role to ensure adequate numbers of suitable trustees are available, We believe this would help to improve governance in the charity sector overall.

**Accountability**

71. Mencap considers itself accountable to the Charity Commission, its donors, benefactors, members of the public and people we support. Mencap publicises its accounts and performance through an annual report which can be found on the Mencap website. Additionally Mencap complies with its reporting obligations through companies' house.

72. Our staff are also expected to uphold high standards of personal conduct and Mencap operates a confidential whistleblowing line ‘Speak out Safely’ Which allows staff, families, carers, people with a learning disability and members of the public to report concerns. Mencap considers this especially important as we often work with and support people who are vulnerable or lack capacity and maintaining high standards of professionalism and care is paramount.

73. Furthermore, it is important that safeguarding measures and systems are robust with multiple layers of accountability and contingency as well as many entry points for complaint and scrutiny should something go wrong. This needs to work alongside procedures and ongoing best practice training and review to maintain the viability of safeguarding procedures.

**The Role of Government**

74. There are two current areas of government policy development which are of great concern to us as a provider of support services, and as a campaigning organisation. The first, the review into future funding for supported housing, which is preventing charitable and registered providers of social housing from providing new units given funding uncertainty. This is especially important for people with a learning disability who can expect to be housed long term and who face discrimination and barriers to finding work so do not in the main have the ability to self-finance and need that long term stability.

75. The second is the increase of the National Living Wage and its impact on care costs at a time when social care budgets are already facing a major deficit. Whilst Mencap supports a rise in the minimum wage for social care workers this must be matched by funding increases if core services and availability of those services are not to suffer. Little consideration was given to this issue before the policy announcement.

76. There is also the issue of delay of promised initiatives to assist disabled people find work through the Government’s manifesto commitment to half the disability

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446 Mencap Annual Reports [https://www.mencap.org.uk/about-us/annual-reports](https://www.mencap.org.uk/about-us/annual-reports)
employment gap. Action, and a white paper was promised for early 2016 yet this initiative has not yet been followed through.

77. Recent Government policy announcements have too often been rushed, ill thought through and thus destabilising to the sector. This has resulted in a number of announcements being put to review or reversed, including the announcement on PIP reform and the proposed reduction in housing benefit for those in supported housing. Mencap believes that a more thorough consultation process and testing of policy pre announcement would prevent future issues of this nature.

78. There is also an impression in the charitable sector that the Government are hostile to feedback or discussion with the charitable sector. Both the lobbying act and the recent announcement around the ‘anti lobbying clause’ for Government grants have been seen as hostile to charities and their role of providing expert analysis based on their experience and duty to advocate for the people they support.

79. Such an environment is counterproductive. For instance, with the ‘anti lobbying clause’ it quickly became apparent that the clause would prevent feedback stipulated as required in a number of Government contracts and be disruptive in providing feedback on matters unrelated to a contract.

80. Charities want to be partners with Government in improving the lives of people they support and both Charities and Government work best in a spirit of co-operation. Mencap believes that decision makers in Government should not seek to restrain the voice of third sector organisations when they raise issues and that charities do so because they have identified a failure in provision or policy which needs to be addressed. In a robust Democracy such interventions should be seen as necessary. Policy or legislation which restrains this role of charities will, in the long run, only shut out the voice of some of the most vulnerable people in society.

Local Government Devolution

81. With the Governments devolution agenda charities, like Mencap, with a focus on providing and advocating for social care and employment services, are working more closely with Local Government. However, we have seen and continue to see a withdrawal from local government funding for local services. Unlike housing, for instance, there is no statutory requirement to provide employment services and reductions to council budgets often fall disproportionately on social care.

82. This is leading to gaps in provision for those who are hardest to reach, particularly in employment services for people with a learning disability and we have seen loss, or potential loss, of services in Hull, Rotherham, Blackpool, Sutton and Leeds as councils review funding priorities. There is a disconnect between local and national Government, with Local Authorities believing that people’s needs should be met through work choice and the work program but failing to realise that these services tend to focus on those closest to or most able to work. Meanwhile national Government believe that local provision is generally available to help those who
need more support than work choice or the work program provide and make assumptions about provision on that basis.

83. There is also an organisational and logistical challenge involved in increasing service devolution to Local Government. Mencap believes that one of the roles of the charitable sector is to advocate on behalf of people charities support and influence policy and legislation, this becomes more difficult the more diffuse decision makers become geographically and more numerous they are. This will require innovation from charities to ensure that methods of influencing work and feedback evolve to meet that change, although this will require a greater amount of resource both in staff time and monetary terms.

12 September 2016
Royal National Lifeboat Institution (RNLI) — Written submission (CHA0153)

1. **RNLI definition of ‘sustainability’**. The RNLI has been saving lives since 1824 and is committed to delivering a lifesaving service indefinitely. We believe that to do this we need to remain relevant, efficient and aware of our impact on the environment and local communities whilst maintaining our operational effectiveness. For us, organisational sustainability means the continued ability to deliver our purpose, and is achieved through awareness of the “triple bottom line”, understanding how we can balance risk and value creation between our social responsibilities, the effect of our economic choices and our environmental impacts. To ensure continued sustainability, the RNLI is currently delivering an organisation-wide transformation that embraces innovation, continuous improvement and new ways of working, including a clear ethical focus in decision-making. We are also developing sustainability elements of our corporate reporting and increasing transparency and believe that all sectors that embrace sustainable thinking will have a greater chance of appropriate growth and organisational success.

**Q1: Purpose of Charities**

2. Charities are distinct from businesses as they are purpose not profit driven, their mission being to do good locally, nationally, or globally in a social and environmental context. By championing what is morally and ethically right, charities can support community cohesion/civic action. If we fully embrace the wider sustainability context and societal challenges, in some cases charities may be better positioned to drive social change than commercial entities.

3. The sector benefits from volunteering in terms of reduced costs and increased ownership of the charitable purpose in society. This in turn promotes strong ethical values within charities and ensures they continue to focus on their charitable purpose.

4. **Challenges**. Many charities now have to comply with the same legislation as business and meet associated costs, e.g. the Energy Savings Opportunity Scheme, and so must have governance and compliance structures and processes in place similar to a commercial organisation. Balancing the need to achieve this using funds for the delivery of the charity’s stated aims is not always easy.

**Q2: Pressures and Opportunities**

5. **Pressures**. The need to spend donors’ money on non-charitable functions such as legislative compliance - corporate governance, transparency, ethical fundraising also present key pressures, at times in conflict with the need to raise money to deliver essential services.

6. **Opportunities**. Charities offer society a different perspective and voice on community views. Notwithstanding charity agendas, they can be seen as an independent voice in many areas. There is also a real opportunity to see how charities and the Government can work more closely and efficiently on shared objectives to benefit society as
a whole. For example, the Government have given the RNLI a section 33 VAT rebate in recognition of how closely we work with the Coastguard.

Q3. Innovation

7. It is important for charities to innovate, not just for the sake of it, but in such a way that bolsters their sustainability. The world is changing and charities must future-proof themselves in terms of funding sources, ways of working and ambition. Vigilance is necessary in our horizon-scanning so that we can anticipate changes before they take us by surprise. And we should be more agile and flexible in our thinking and our internal structures so that we can innovate and adapt to new influences as we spot them.

8. Innovating in the digital space is about capitalising, testing and playing with emerging technologies, but most importantly it is about listening to users and giving them opportunities to engage with us in new and fun ways. Historically charities have struggled to strike a balance between organisational and supporters needs.

9. User centric design and understanding of user needs and motivations are essential criteria when developing new digital products or campaigns. Digital channels continually generate rich, insightful data, which can help inform and identify opportunities, previously not possible through more traditional methods of engagement. By interrogating this data in the right way it is now possible to get to know our existing and prospective supporters better than ever before.

10. There are examples of where charities look to gain inspiration and form partnerships to develop new products, e.g. gamification has changed the charity landscape by creating opportunities to raise awareness, educate and fundraise in new and innovative ways. However, before charities can truly leap into designing world class leading digital products, it is important to get the basics right, e.g. personalisation, real time marketing and mobile optimised channels. Consumers are more digitally savvy than ever before and so expect truly omni-channel experiences.

11. How do charities seek to innovate? Some charities may attempt to define what innovation means to them and translate it to stakeholders. In defining it, innovation may be aligned to business strategy with the aim of maximising the benefits for a sustainable future. The RNLI is achieving this by extending the remit of innovation across the whole organisation to encompass and demonstrate its worth through tackling strategic challenges and presenting future possibilities to influence planning decisions.

12. What more could be done to promote innovation and by whom? Within the RNLI a supportive Executive Team (ET) has given innovation space and time to develop and find its appropriate place. Promotion of innovation to the sector would be useful via education programmes for trustees and ETs to help understand what innovation can do for their specific organisation, which will allow for management of expectations and realistic investment returns.
13. **What barriers are there to being innovative?** Barriers to innovation can often have a root cause of not being aligned to longer term strategy. This misalignment can cause a lack of common understanding as to what constitutes successful innovation and how long it might take, creating mistrust for new thinking and a low appetite for risk.

**Governance and leadership**

**Q4. What skills are required to lead and manage a charity?**

14. As the driving force of a charity’s purpose and ambition, the Chief Executive represents the charity and all it stands for. This requires energy, dynamism and an authentic and influential leadership style to inspire teams and people, connect and engage with diverse stakeholder groups and harness their networks. With increasing public and political scrutiny, charity leaders increasingly need to optimise productivity while maintaining a charity ethos in a complex environment with competing objectives and ever-growing regulatory landscape. They require self-belief and resilience to lead change and direct the Executive Team in strategy which not only maintains delivery of existing services, but enables growth, responds to recipient and community needs while being agile enough to embrace new technologies and achieve a sustainable future for the charity. Working closely with and reporting to the Trustee Board, the Chief Executive must recognise and instil robust compliance and governance to ensure that all legal and regulatory requirements are in place, with clarity of roles and responsibilities.

**How can these skills be gained?**

- Investing in leadership development to grow and attract talent
- Robust succession planning strategies and continuous professional development
- Exposure to assignments in either existing or partner organisations to grow skills
- Utilisation of networking within sectors and mentoring with other business leaders

**What support exists to develop these skills within the charitable sector?**

- Participation in networking and also benchmarking exercises
- Sharing good practice between organisations

**Q5. What role should trustees play in the performance and effectiveness of a charity?**

15. Carrying the ultimate legal and moral responsibility, Trustees must ensure their organisation delivers effectively, efficiently and sustainably. As a collective, Trustees agree, support and approve strategy and set goals and deliverables to realise the charitable purpose. This should sit alongside a clear risk management framework at all levels. To achieve it all, trustees should ensure clarity of their roles, responsibilities and that of any reporting staff, including the division of delegated authorities and powers. They should be alert to conflicts of interest, ensure the charity’s policies are clearly understood by all, and that a regular process of review is in place.

- **How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**

  (*An extended version of the below can be found in Appendix 1*).
• Clear, purposeful and unambiguous terms of reference for the Trustee Board, documented, shared and used as a recruitment/selection tool, alongside a supporting skills matrix that is aligned to the strategic plan.

• Provision of a structured induction/familiarisation programme for new Trustees, to enable awareness of their role, the strategy and current performance. Also opportunities for the full Board to regularly engage with the work of the charity, beyond attendance at Board meetings.

• Regular Board meetings with standing agenda items reporting on performance against agreed measures/indicators and the potential risks. Alongside this, strategy workshops in conjunction with the senior staff (as appropriate) building understanding of the opportunities or risks.

• Strong Board chairmanship and leadership, which encourages openness, debate and regular dialogue between Trustees and staff is vital in facilitating the process of understanding and the evaluation of performance. This can be significantly enhanced by a relationship of trust between the Board Chair and Chief Executive, or lead member of staff as appropriate

**What, if any, changes might this mean for current arrangements?**

16. Simpler, clearer guidance/training on how to measure and monitor charity performance. The delivery of a charitable purpose is different to the bottom line profit of a commercial company, although of course financial performance is an important element of charity performance. This could be supported by increased sector collaboration on best practice.

**Accountability**

*Q6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?*

17. The RNLI is keen to understand its place in the world: where we have impact, what impacts upon us, both now and in the future. While the core focus remains the charity’s own mission, it should not be at the expense of the environment or its people. This should be supported by transparency; working towards integrated reporting, long term viability & sustainability targets and objectives with KPIs. Using sustainability criteria such as the 5 Capitals (Social, Human, Financial, Environmental, Manufactured), charities can understand what and how they increase, decrease or transform the value (quantitative & qualitative measures) they create beyond their charitable outputs. Further assessment of impacts at local, national and global levels can be assessed through measuring use of resources (renewable and non-renewable) and contribution to UN 17 Sustainable Development Goals.

**Resource Management**

*Q7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector? How can these challenges be overcome?*
18. We see efficient resource and risk management in the broadest context, including financial, human, environmental and other factors. Many charities do not measure, monitor or report on their resource use or real risks to their sustainability at a strategic level, and may be further behind in terms of improving efficiency and risk management than businesses. The work carried out by the Charity SORP Committee to improve financial reporting is key to this and there must be robust sanction where charities fail to adhere to such rules to ensure a healthy charity sector.

19. Financial Resources. 2015 was a tumultuous year for fundraising and as a result the sector has to take an innovative approach to how it is funded in the future. It is vital that we start to assess not only the methods for raising income and their acceptability to supporters but perhaps more importantly how, where and when we spend money, both funding and operationally, to achieve our goals. The future leaders of the sector will likely be those that are the most efficient and transparent rather than those with the greatest scale.

20. With this in mind, we understand it is critical that individual organisations start to consider their expenditure as a key element of their future sustainability and importantly that they justify that to their supporters. Clarity of reporting, transparency of messaging and a holistic approach to service delivery will become critical factors in overcoming the challenges of financial stability in the future.

21. The fundraising environment is increasingly competitive with reliance on traditional fundraising methods representing a financial sustainability risk. Donors are rightly demanding more transparency and integrity from the charities they support. With this in mind, the RNLI is the first charity to announce a move to an opt-in approach to its communications with supporters. This means that from 1 January 2017, we will only contact individuals by post, email and phone if they have given their express permission. While the response to our opt-in campaign has been encouraging so far, the charity risks losing touch with 500,000 existing supporters, which in turn could impact its ability to raise the £168M it costs to run our lifesaving service each year. The challenge from 2017 will be to maintain strong relationships with existing supporters and attract new ones, which is necessary to secure the RNLI’s future.

22. The role of the new Regulator and other sector bodies should be to start to assess the positive actions already being undertaken, not only in the sector but beyond, and then start to create expert advice and guidance on how these might be implemented for greater sustainability. There is already a significant degree of informal sharing within the community that should be encouraged and leveraged for further benefit.

23. People Resources. Long term planning for key skills requirements is critical. It will benefit the whole sector to share mechanisms and learning for the development of key skills specific to the voluntary sector, e.g. as volunteer management & development as well as supporter care and the more innovative skills around enabling technology and future funding models. As an example, the RNLI have successfully worked with Charity Works, which as a third party, collectively represents charity postgraduate placements, enabling identification of future talent within the sector.
24. **Other Resources.** Charities may benefit from increased best practice sharing and working together for common objectives, e.g. reducing carbon impact. We may be in competition for donors/supporters etc. but there are also big issues we all need to overcome. The social good of charities in general would be enhanced through more partnership working on common issues.

- **How can best practice and information be shared across the sector?**

25. Forums and conferences focussed on future horizon planning for skills would be helpful.

- **What are the benefits/challenges of funding for charities from commercial contracts?**

26. While many organisations can derive significant benefits from commercial contracts and activity, (increased income, broader engagement, higher profile, etc.), the critical challenges are in managing and aligning this activity in such a way as to manage the risks. Commercial approaches to funding require specific skill sets and governance to ensure that they succeed, do not damage the organisations reputation and add value to the overall purpose. The methods, structures and operational styles of commercial arms will need to be carefully structured to meet both the needs of the organisation but also the high standards of our supporters and donors.

27. Again the holistic nature of the organisational approach cannot be underestimated. If the reporting and transparency of the organisation is insufficient it is very likely that organisations that suddenly start generating commercial income streams may find support waning as donors find ‘better’ uses for the time/money based on perceptions drawn from scant or incomplete materials.

**Social investment**

**Q8. What is the potential of social investment and social impact bonds? What are barriers to fulfilling their potential?**

28. There is some potential for the use and increase of these methods of funding charitable purposes. Indeed there is some evidence to suggest that this will become a preferred method for many high net worth individuals/organisations. However, the ability to build sufficiently robust models that can genuinely succeed over time, the approaches required to monitor/demonstrate value and the longer term commitment to projects will prove challenging for many organisations.

29. As an organisation, we have found that the challenges of entering this market, sourcing required skills to make it effective and identifying workable projects have proven significant hurdles to undertaking this activity. Further, although social impact bonds could force charities to have to better demonstrate their impact, it is possible that many charities may struggle with the systems, processes, competencies and acumen to deliver them.

30. There is a case for exploring further the opportunities around social investment (Environment Social Governance). An increased focus in this area could address the dilemma of balancing sustainability against optimising assets. Whilst the Charity Commission suggests that funds are not invested in areas that conflict with the charities
aims it does not appear to encourage consideration of the potential synergistic impacts that could be gained by proactive social investment. Robust sustainability criteria for investments and a deeper investigation into procurement and supply chain impacts is needed and firmly on the RNLI’s agenda.

Q9. What should the role of Government be within the Sector?

31. Charities play a key role in supporting the public benefit and so it is in the Government’s interest to support a healthy charity sector. A big challenge in the last 20 years has been increased regulation and compliance work required of charities, which increases cost and administration. In introducing new initiatives, the Government should ensure that input is sought from the sector itself and that impact is measured. The main pressures are around ensuring compliance in an increasing regulatory environment.

32. It is important for charities to show impact in order to demonstrate to their supporters the value of their contributions. This should not spell more regulation, but there should be better review of compliance and formal sanctions where compliance is lacking, e.g. if accounts are not SORP (Statement of Recommended Practice) compliant then action needs to be taken.

33. Government should encourage charities and promote good practice within the sector, and therefore actively discourage bad practice. The governance role of the Charity Commission is vitally important and it is therefore important that it is effectively funded to carry out this role to ensure the reputation of the sector is not tarnished by charities that are not operating correctly.

12 September 2016

APPENDIX A
Amplification of Qu5: Role of Trustees - RNLI Practice

<table>
<thead>
<tr>
<th>In order to achieve this the Trustees must:</th>
<th>How does the RNLI achieve this?</th>
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</table>
| 1. Agree, support and set strategy, including clear aims, goals and deliverables, supported by business/delivery plans, in order to achieve the charitable purpose | • Regular, diarised, strategy workshops with Trustees and executives, from initial ideas through to strategy sign off  
• Clear, staged process of supporting business plan development in order to reach strategic goals |
| 2. Agree a set of measures/indicators by which to regularly track and monitor | • Agreed KPIs and indicators with the Board  
• Reported on quarterly as standing agenda item at Board meetings |
progress to achieve the agreed plans and strategy, and an associated risk management framework to this. | • KPIs currently under development to be re-aligned new strategic goals, and improve impact reporting

| 3. Have real clarity of their role, responsibility and that of any reporting staff, so the division of delegated authorities, duties and powers is well understood by all. | • Agreed, defined and communicated role profile for Trustees, Officers of the Board, and all Governance roles – part of RNLI Regulations
• Matters reserved for the Board – defined, agreed and communicated as part of RNLI Regulations

| 4. Act as a collective Board, collegiate in nature, recognising their collective, as well as individual responsibilities. | • Trustee Board terms of reference – part of RNLI Regulations – specifies collective responsibility. Individual Trustee role defined in RNLI Regulations.
• Every new Trustee signs and agrees to a ‘terms of appointment’ prior to being formalised in post.
• Every Trustee has a full induction – generic/core elements outlining their duty, rights and responsibilities, which is then supplemented with their own specialist areas of interest
• Trustee workshops held in addition to Board meetings to discuss changes in collective responsibilities, e.g. change in Fundraising legislation/ regulation in 2016, and how this will affect policies, management, oversight and reporting of performance.

| 5. Avoid and be alert to individual conflicts of interest, so that personal interests do not influence their ability to make decisions on behalf of the charity, and thereby affect charity performance. | • RNLI Conflicts of Interest policy is part of the RNLI Regulations.
• Standing agenda items to ask for new declarations of conflict of interest at every governance meeting.
• Annual return required to be completed by all governing volunteers in order to declare their interests.

| 6. Ensure the charity’s policies are clearly owned and understood by all. | Central policies covered in Matters Reserved for the Board as part of RNLI Regulations

| 7. Have a regular process of review and improve for all of the above. | • All RNLI Regulations (including all governance operations, governance terms of reference, governance role profiles and governance policies) are reviewed annually, updated and re-circulated to all stakeholders. |
Royal National Lifeboat Institution (RNLI) — Written submission (CHA0153)

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

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<thead>
<tr>
<th>Key enablers for Trustees</th>
<th>How does the RNLI achieve this?</th>
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<tbody>
<tr>
<td>1. Clear, purposeful and unambiguous role and responsibilities of the Trustee Board</td>
<td>• See point 4 above</td>
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<tr>
<td>2. A relationship of mutual trust, understanding and support between the Board chair and chief executive</td>
<td>• Regular diarised meetings with Chair and CE</td>
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<tr>
<td>3. A supporting skills and experience matrix that is aligned to the purpose and strategic plan of the charity</td>
<td>• Nominations Committee use a skills matrix to help inform their discussion and selection</td>
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<tr>
<td>4. A clear mechanism by which to find, select and recruit Trustees to the Board, using the skills matrix and defined role, particularly for any new or under–represented skills required on the Board</td>
<td>• Documented process, used in conjunction with the Nominations Committee and their processes.</td>
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<tr>
<td>5. A structured induction and familiarisation programme for new Trustees, so they have awareness of their role, the strategy and current performance.</td>
<td>• Induction process and programme reviewed and refreshed in 2015. Now has core information elements supplemented with tailored/specialist interest areas for individual Trustees • Induction programme aligned with strategic goals.</td>
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6. **Opportunities for the whole Board to regularly engage with the charity, particularly in the work that it does (i.e. not just be attending Board meetings)**

- Strategy away days and discussions for all Trustees with executive team to work collaboratively together on
- Opportunities to be part of ‘coastal reviews’ looking at operational deployment
- Annual RNLI Council Conference – covers the current and future work of the charity – highlighting specific progress and programmes of work, encouraging governing volunteers to become involved.
- Opportunities to attend various staff and volunteer events, briefings, ceremonies
- Regular opportunities to become part of Special Interest Groups (short term focussed groups who assist particular parts of the business delivery)

7. **Regular, well-attended, Board meetings with standing agenda items reporting on performance against the agreed measures/indicators and the risks it might face in achieving these.**

- Trustee Board performance as a whole carried out approx. every 18 months through an internally managed process (survey, one-to-one discussions with the Chair and every Trustee) with report (anonymised) to the Board for review with recommendations.
- CE reports on Charity performance in an open, honest ‘charity report’ for every Trustee Board meeting, giving a true insight on what is going on in the charity
- Strategic risks reported and discussed at every Trustee Board meeting as a standing agenda item and open to full Board discussion
- Attendance is tracked and reviewed at every Nominations Committee meeting for every governance group.

8. **Board workshops to discuss future strategy, horizon scanning in conjunction with the senior staff (as appropriate) building their understanding on the**

- As above. Two workshops per annum. Agenda determined between CE and Chairman.
- One workshop tends to be ‘blue skies’ thinking. The second is more focussed on current strategy and its delivery.
opportunity or risk the charity may face.

| 9. Strong Board chairmanship and leadership, which encourages openness, debate and regular dialogue between Trustees and staff (where this is the case) in order to facilitate the process of understanding and the evaluation of performance. | • As above – we operate a Board performance evaluation system. The incoming Chairman will re-run this system at the start and middle of his tenure (4 to 5 years on average), plus annual face-to-face review meetings with each Trustee individually to gain their feedback on how the Board is operating.  
• Chairman role profile and recruitment process was reviewed in 2015 as it was critical in securing the right leadership style and skills in leading the Board to best meet the future RNLI needs and aims. |
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<td>10. Regular review and improvement mechanisms in place for policies, regulations and delegated authorities in order to assess their continued appropriateness and application.</td>
<td>• See points above on Regulations review, and Trustee Board evaluation process.</td>
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</table>
RSM UK — Written evidence (CHA0120)

RSM is a leading auditor and advisor to the charity sector with over 1,000 charity clients across the UK and we welcome the opportunity to provide a response to the Call for Evidence.

Our response to the Call for Evidence is based upon our experiences working with charity clients and our views on best practice.

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

1.1. The role of charities in civic society is to provide a mechanism that links those in society in need with those with the will and ability to provide. The primary purpose of charities is to provide a legal, operational and governance framework from which philanthropy and civic society can operate. Charities need to operate in a way that provides the public with the assurance that charitable funds will reach those intended.

1.2. Charitable status is associated with an assumption of public trust. With recent high profile failures within the charity sector and an unprecedented level of media scrutiny, charities need to work hard to reassure the public and protect the reputation of the otherwise good work being done across the sector.

1.3. Provision of services that would previously have been (or would be if funds allowed) provided by the public sector (either central or local government) is one of the largest changes charities have faced in recent years. As public sector funding has been cut across many services (palliative care, careers advisory services etc.) many charities are finding themselves in a competitive bidding scenario for funds that would once have been awarded as a grant.

1.4. There is a significant time investment required to prepare contract bids and some charities do not always have the commercial or procurement skills needed for this process. In addition charities often find themselves competing against corporate entities for these contracts and are not always able to compete on price – particularly as charities’ costs are usually higher due to their inability to recover VAT.

1.5. Unlike grant funding, charities also have the ongoing management of contracts, once awarded, including measuring the outcomes and reporting key performance indicators to funders. This comes with additional time and cost implications which are not always recognised or compensated for by funders. As such, it is often difficult for charities to achieve a full cost recovery model for the services that are being provided and the charity sector is, therefore, sometimes unfairly disadvantaged.

How does the sector benefit from volunteering?
1.6. Volunteers are at the heart of the concept of charity in England and Wales. The charity sector is founded on and continues to rely heavily on volunteers. Many charities can only obtain the resources and skills they need from volunteers. However, the costs faced by charities in recruiting and managing volunteers are sometimes overlooked: volunteers need to be managed efficiently and charities need to manage the risks associated with their own brand and reputation.

1.7. Volunteering can take the form of skills as well as the traditional volunteering of time. Attracting and retaining volunteers (and utilising their skills in the right way for each individual charity) can be a time-consuming process and is not without cost. Understanding the motivation of volunteers and what barriers they face can assist charities in offering them the most flexible options.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?

What opportunities do charities have in the current environment?

2.1. Opportunities exist from greater collaboration with other charities and other organisations as well as from the competitive funding environment which can both drive and inhibit opportunities. Reluctance by some charities to work collaboratively often comes from a fear of losing their identity or a loss of control.

2.2. Yet the need for the sector to be seen as modern and focussed on the requirements of beneficiaries rather than the organisation itself is apparent more than ever before. If there are two or more organisations that would benefit from working together either collaboratively or in a formal merger arrangement then trustees need to be generally more open to exploring these opportunities.

2.3. There are also opportunities for charities to work in collaboration with overseas organisations to expand their activities internationally. The strong framework that charities in England and Wales work within makes them well-placed to lead on cross-border initiatives.

Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

2.4. Funding continues to be the key challenge for many charities, in particular those that are reliant on government grants and contracts to provide public services as set out in our response to question 1 above. Additionally generating voluntary income in the form of donations is challenging in the current environment which also usually comes with an associated up-front cost of investment in PR, marketing and fundraising.
2.5. Raising awareness among and engaging with beneficiaries can also be a challenge for some charities, in particular grant-making charities with charitable objects centred on specific sectors of the public. In some cases, the trustees of a charity know that potential beneficiaries exist, but are unable to find effective ways to reach them. Charities need to find ways to utilise technology (see our response to question 3) and work alongside local government (see our response to question 9) to enable potential beneficiaries to access their services.

**Innovation**

3. How do charities seek to innovate, particularly in the digital arena?

What more could be done to promote innovation, and by whom?

What barriers are there to being innovative?

3.1. We have seen an increased use of social media across our charity client base for promotion of their charitable activities and to increase fundraising. Technology has also allowed charities to manage data and processes more efficiently and effectively.

3.2. Barriers to innovation, particularly digital innovation, often come from perceived high initial set up costs and a lack of suitable skills within existing staff and trustees as well as the constraints of their charitable purposes and charity taxation rules (ensuring that new income generating activities and initiatives fall within charitable trading limits and do not unwillingly expose the charity to additional direct or indirect tax liabilities). Some charities could do more with social media and technology if they had the resources (both financial and skills) to fully explore this arena.

3.3. Innovation can also be stifled by a culture of ‘but we have always done it this way’. Often new ideas will come from recently appointed trustees so the rotation of board members is important to avoid charities becoming stuck in their ways. Rotation of trustees could be more actively encouraged in the sector although to be successful would be dependent on a strong pool of potential new recruits. Changes in society as well as technological developments will require charities to constantly adapt and become more innovative, both in their own operations, and in how they identify and address the changing needs of beneficiaries. An effective board of trustees should set time aside from the day to day operations and from fulfilling its fiduciary duties to consider exactly what it is trying to accomplish to ensure new ways of doing things are explored.

**Governance and leadership**

4. What skills are required to lead and manage a charity?

How can these skills be gained?

What support exists to develop these skills within the charitable sector?
4.1. The distinction between leadership and management is an important one and is best aligned to the difference between the trustees and the executive team or day to day managers of the charity.

4.2. Effective leadership of a charity requires the right board of trustees. A good starting point in establishing the board is to create a balance in terms of skills and expertise as well as a diversity of background and thinking. Obtaining the right mix of skills, experience and qualities is a key ingredient in building an effective board. One process that can be employed to assist in this process is a trustee skills audit.

4.3. Training and board development is critical to a charity’s ongoing success and to ensure trustees have the right skills to lead the charity. Effective training and board development comes from specific training on issues impacting the individual charity combined with general training on the regulatory environment and external training from sector bodies.

4.4. There is scope for wider education and training of the public about the charity sector. For example, the Government could include a charity programme within the National Curriculum to explain to young people the purpose of charity and how it is beneficial to society in England and Wales. Government could also do more to help to educate the public and younger people on the role of charity and to promote volunteering opportunities (either for a charity’s activities or as a trustee). Funding will play an important part of this and the Charity Commission is well-placed to promote the importance of charity to wider society.

4.5. Commercial organisations such as RSM also play a role in trustee training and development by highlighting the importance of charity governance best practice via research, publications and board development courses. Volunteering initiatives for employers would also be an area that Government could support further in promoting Corporate Social Responsibility (CSR) programmes to aid the uptake of volunteering.

4.6. Effective Board appraisal is also an area often overlooked by some charities. Continual appraisal of trustees is considered to be an effective method of achieving engagement and ensuring that efforts are of a sufficient intensity. Some charities implement a formal process to consider the contributions of trustees and this can also extend to a 360 degree review of the board itself incorporating feedback from management and staff as well as other stakeholders.

5. What role should trustees play in the performance and effectiveness of a charity?

How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
What, if any, changes might this mean for current arrangements?

5.1. Being a trustee means making decisions that will impact on beneficiaries and with this responsibility comes accountability. The ultimate responsibility rests with the trustee to direct the affairs of a charity, and ensure that it is solvent, well-run, and
delivering charitable outcomes for the benefit of the public for which it has been set up. Expectations of the standard required for trustees have continued to increase (and become more complex).

5.2. But before knowing what is required by an individual trustee it is important to know what the charity is trying to accomplish. An important role of the trustees is to stand back and set the strategy – it is their job to consider ‘what are we trying to achieve?’.

5.3. Trustees are expected to use their personal skills and there is a need to be prepared for board meetings. In England and Wales, the expectation of trustees is generally to volunteer time. The time commitment for a charity varies depending on the activities of the charity and its size. As a guide, many trustees of larger charities devote one day per month to their role, for example preparing for and attending board and committee meetings, plus perhaps project visits. Some charities openly report attendance records by individual trustees in their annual reports.

5.4. With increased media and regulatory focus on governance of charities, it is critical that charities continue to attract and retain the right trustees. The increased demand on trustees in terms of time, skills and responsibility does beg the question ‘should charities be able to pay trustees for their time?’. This debate has been ongoing for some years and weighs up the ability to recruit the best people with the underlying principle that charities are ultimately governed by volunteers.

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

What, if any, changes might this mean for current arrangements?
How should charities assess their long term viability and/or sustainability?

6.1. The annual accounts continue to play a key role in accountability for charities with all but the smallest charities required to file annual accounts with the Charity Commission.

6.2. In April 2016 the Charity Commission issued a report into its reviews of accounts with 77% of those reviewed being of acceptable quality. While this was an improvement on the 68% achieved in the previous year it does indicate that there is still significant room for improvement in this area. In particular 26% of the accounts reviewed failed to include details of the charity’s reserves policy, which is critical to understanding and setting the expectations for the financial viability of any charity. An explanation of the reserves held and plans for their use is important to enabling a third party being able to understand the charity’s financial position and future strategy.
6.3. As noted earlier in our response to question 5, charity trustees need to focus on 'why are we here?' and ‘what are we trying to achieve?’. This requires a focus on long term strategy and financial planning not just the short term challenges.

6.4. Long term sustainability and viability should be assessed by taking into account the needs of beneficiaries and considering how these may change. Charities should engage with their beneficiaries to better understand their needs and also to ensure they are accountable to them. Sources of finance should also be assessed and should take into account the views of current funders and donors.

6.5. Opportunities to work collaboratively with other organisations should also form part of long term planning.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

How can these challenges be overcome?

7.1. As with any commercial entity the single biggest challenge to charities is ensuring sufficient cash flow to fund its operations.

7.2. Every charity requires funding to survive; ultimately, only a lack of cash will cause an organisation to fail. Implementing a financial strategy should be a key priority of every charity.

7.3. Trustees need to be aware of the financial risks involved for each significant existing source of income as well as considering the potential for new ventures and new streams of funding, with diversification and sustainability in mind.

7.4. Trustees also need to mitigate the risks associated with loss, inefficiencies and fraud by having robust financial controls and procedures in place. The failure to do so often leads directly to serious financial mismanagement or abuse. Naivety is often involved when charities fail to put controls in place, and while a certain degree of mutual trust between trustees and staff members is vital to the smooth running of an organisation, it must always be underpinned with effective systems and processes that protect the charity and its funds.

7.5. Most charities will be undertaking multiple activities and trustees need to understand the income and costs associated with each. It is these activities (specific programmes and services) that provide the outputs (services being delivered) which lead to the outcomes (changes for beneficiaries) and ultimately the impact (benefits to society) made by the charity. Activities are, therefore, important because of the link to the ultimate mission but these must be financially sustainable.
7.6. Providing evidence that the activities are sustainable is achieved through the annual financial budget process and considering this in advance of the year ahead is an important duty for trustees. This should not be confined to an annual exercise as financial sustainability requires an ongoing management of cash flows, monitoring and reviewing financial performance throughout the year on a timely basis. This then allows for timely corrective action where needed. The annual financial budget should not be a standalone feature of financial governance as financial planning should be integrated with wider organisational planning and management to ensure resources are used in the most effective way.

What are the benefits and challenges of funding for charities being derived from commercial contracts?

7.7. When charities generate income from commercial contracts, this must be done transparently and in line with the charity’s values and charitable objectives. Recently, high profile national charities and their commercial arrangements have attracted press and public attention and called such arrangements into question. However, charities inevitably need to diversify their income sources to be financially sustainable but boards of trustees have a duty to ensure that commercial contracts are subject to robust due diligence and financial planning as well as proper ongoing scrutiny.

Social investment

8. What is the potential of social investment and social impact bonds?

What are barriers to fulfilling their potential?

8.1. Social investment is an often overused term which covers a multitude of ways that funds can be advanced to charities and social enterprises, where there is a requirement to both repay the capital advanced and to pay a return on the investment.

8.2. It does not generally refer to funds advanced by a high street bank in the form of commercial lending, it is usually funds advanced by specialised providers of finance focusing on charitable and social enterprises. From our experience, despite many new products and launches social investment remains at a premium to traditional forms of high street lending.

8.3. Generally the providers of such finance have a good understanding of their market and of the risks and challenges facing charities and social enterprises and are prepared to take a higher risk and lend with less secure collateral. However because charities and social enterprises often do not have security available, our experience suggests that form of financing is more expensive than traditional high street borrowing. Put in another way, a charity or social enterprise may only have recourse to social finance if it cannot raise funds from a more traditional bank or building society.
8.4. For the uptake of social finance to increase significantly, there needs to be a change in the perceived risks in repaying a funder’s original investment.

8.5. Housing associations, frequently charities, have been able to access around £65.8 billion of funds (Source: Homes & Communities Agency Quarterly Survey Q4 January to March 2016), on commercial terms, because lenders to that sector understand the risk to the rental income stream. However, many novel forms of finance have also been successfully brought to market, including low cost bonds or funding by pension funds. This is because the rental income stream is seen as a very secure long term means of supporting lending. Given most charities and social enterprises do not generate similar low risk income streams, similar low cost funding is not available. If social investment funds could be matched with grants, by philanthropic giving or by government, or if lending could be underwritten by guarantees, this type of funding could become more accessible.

8.6. Social impact bonds (SIBs) could be an exciting way of raising funds to enable a scaling up of activity. In essence they are a form of bridging loan, allowing an organisation to deliver an activity and input now that will create a social outcome in the future. However, SIBs rely on having a beneficiary that will make a cashable saving and who is prepared to pay over a part of that saving to the investor.

8.7. Beneficiaries usually include the NHS, Local or Central Government. However, because the identified outcomes are only realised some way in the future it is very difficult for public bodies to commit to fund the bond in the long run. For example, a social impact bond to fund the scaling up of the delivery of exercise and lifestyle change to existing heart attack victims, by an organisation with an already successful track record of reducing the number of second heart attack, that would otherwise have happened in say three years, is unlikely to proceed because a Clinical Commissioning Group (CCG) would be unlikely to guarantee to share the savings. Again we believe that a way to unlock this would be for government to offer guarantees. There also needs to be a greater awareness of SIBs in the philanthropic community.

The role of the Government

9. What should the role of Government be with the sector?

What should be the role of local Government?

9.1. A large proportion of charities receive significant government funding or are providing services on behalf of or in place of the government. Where services such as hospice care or health services are provided by charities, the standard of service needs to be held to the same levels as within the public sector. It is crucial for public confidence that government agencies such as the Care Quality Commission (CQC) have the same remit and responsibilities to charitable organisations.
9.2. Local government can often have a more hands-on role in the sector. Where funding is provided by local authorities or CCGs, representatives of these organisations provide vital insight and expertise to the trustees and management of the charities they fund. Representation on boards of trustees is common and can be associated with some grant funding agreements. This can be very helpful to charities in terms of insight and relationship with their funder. It does however present a challenge in terms of conflict of interest which must be carefully managed.

9.3. Promotion of charities within local communities is an area where in our experience local government provides additional assistance to charities for example signposting beneficiaries to charitable services.

9.4. Many charities are impacted by the lack of planning by Government on funding commitments. For example, far funding commitments and contracts underwritten by local and central government are often allowed to lapse with tardy renewal practices. We see too many examples of charities that are left with uncertainty over future funding and timescales as well as lack of agreement with funders on key issues such as price. This practice is inefficient for the charity sector and public funders alike. Government also has an important part to play in ensuring charities receive full cost recovery funding as set out in our response to question 1 above as well as not necessarily being the lowest cost bidder being appointed in a competitive tender situation when quality measures for beneficiaries must be considered in order to deliver the most effective outcomes.

Lessons from other sectors and countries

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

10.1. No specific comments

5 September 2016
Introduction

1. The RSPCA is pleased to be able to respond to the House of Lords Select Committee on Charities inquiry on sustainability and governance in the charitable sector. The Committee has identified a very pertinent area that rightly deserves careful consideration. If the charitable sector is to thrive and deliver the good it does it must have the resources, in all senses of the word, to do so.

2. The RSPCA is the oldest animal welfare charity in the world, set up in 1824. Since then we have played a large and wide ranging role in civil society including rescuing, rehabilitating and rehoming thousands of animals each year and investigating complaints of animal cruelty through our team of inspectors. We cover England and Wales but have sister organisations in Scotland, Northern Ireland and the Republic of Ireland as well as a number of other countries around the world.

3. We are a registered charity with the Charity Commission and we have a federated structure with affiliated local branches who are registered as separate charities, for example “RSPCA Central and North East London” branch. Thus many of our activities (for example, fundraising and volunteering) are conducted both at a ‘national’ and local level.

The role of the RSPCA

4. The RSPCA as a charity will, by all lawful means, prevent cruelty, promote kindness to and alleviate suffering of all animals. We do this in a range of ways, but our most important - and best known - role is our frontline work to prevent cruelty and protect animals. This includes our unique work as the primary enforcer of animal welfare legislation in England and Wales, an historical anachronism based on the reasons and timing of our foundation. We are the only charity who has such an enforcement role.

5. The RSPCA has been investigating and prosecuting animal welfare offences since our founding in 1824. Our first inspector in fact predated the first police force. In 2015, our team of 350 inspectors investigated 143,004 complaints of animal cruelty and collected and rescued 118,994 animals. The RSPCA’s prosecution team secured 1,781 convictions for animal cruelty offences, primarily under the Animal Welfare Act 2006. Our work investigating and prosecuting these offences costs the RSPCA £43 million annually, a cost which would otherwise have to be borne by the Government.
6. Other frontline animal welfare work includes our network of animal centres (which in 2015 rehomed 47,651 animals and neutered, microchipped or otherwise treated 273,240 animals), our wildlife centres (which saw 16,302 animals admitted in 2015) and our farm assurance scheme, RSPCA Assured, which ensures that over 275 million farm animals are born, reared and slaughtered to our stringent animal welfare standards.

7. In addition to our frontline role, the RSPCA also provides training to professionals who work with children and young people to help them deliver our educational message and prevent cruelty before it occurs. In 2015 this included training more than 2,300 student teachers and 486 youth offending team members, social workers, foster parents and carers and speaking directly to around 7,000 children aged 7-11 in schools, as well as working with youth justice teams, youth offending teams and young offenders themselves to deliver restorative justice programmes as an alternative to custodial sentences. We also use our scientific expertise to provide advice and expert help to those responsible for the welfare of animals and work with policymakers and politicians at all levels to improve animal welfare legislation and practices.

8. The RSPCA is subject to a number of checks and balances. These include the Charity Commission, the Information Commissioner, the Fundraising Regulatory Board and on our enforcement and prosecution work the Crown Prosecution Service, who can take over any of our prosecutions at any time. The RSPCA has recently adopted new internal procedures to ensure our oversight is as robust and transparent as possible including a new complaints procedure with an independent complaints reviewer as the ultimate arbiter and a new independent oversight group to examine our prosecution activity during the year against the Code for Crown Prosecutors.

9. The RSPCA receives no Government funding and relies on the generous support of our network of donors. In 2015 our income was £124.4 million and our expenditure was £123 million (versus £125.9 million income and £119.7 million expenditure in 2014 and £121.3 million income and £134.4 million expenditure in 2013). Our income comes from a mix of individual donors, grant-giving Trusts and corporate partners.\footnote{Full details of our accounts can be found in our annual report: http://www.rspca.org.uk/utilities/aboutus/reports/-/articleName/EM_Reports_and_accounts}

Volunteering in the RSPCA
10. The RSPCA has 6,486 active volunteers in total, spread across the ‘national’ RSPCA (i.e., not in one of our branches). Their role and importance is huge - we simply would not be able to do the work that we do without them.

11. Volunteers span a huge variety of areas of work in the RSPCA, from running charity shops to delivering talks to school children to walking the dogs in our animal centres. 1,607 of our volunteers are involved directly with animal welfare work which in itself spans a huge range of activity, including helping in our animal centres, carrying out home visits of potential animal rehomers, fostering animals whilst they wait to find their new home and acting as drivers for our centres and hospitals. A further 4,879 volunteers are involved what can broadly be defined as communications volunteering, including our community fundraisers, the volunteers who staff our charity shops, specially trained education volunteers who deliver school talks and campaigns volunteers.

12. In addition, our branch network is reliant on volunteers. We estimate that there are approximately 9,000 volunteers across RSPCA branches. For example, 1,300 volunteers are currently involved as branch Trustees.

13. Microvolunteering - quick, simple, online volunteering, for example signing an online petition - is also increasingly important to the RSPCA, particularly when it comes to our campaigns work. For example, in 2015 over 245,000 people took one of the RSPCA’s campaign actions online; a quick and easy way for them to show their support and help us deliver real change for animals on a whole range of issues.

Community cohesion

14. Preventing cruelty and promoting kindness to animals promotes humane sentiment in humans which gives a moral benefit to the community as a whole. For example, the RSPCA delivers many training events each year to youth offending team workers, social workers, foster parents and carers with the aim of rehabilitating juvenile offenders. This includes the work of our Mallydams Wood Educational Centre, which gained new funding through a Reaching Communities grant in 2015. With funding for staff and activities the centre has appointed a Community Engagement Manager, a family’s officer, a youth officer and a schools officer. Families are referred to Mallydams, visiting once a week for eight weeks to take part in a wide range of activities aimed at building confidence and communication skills and their preconceived ideas about learning in natural settings and about animal welfare are challenged. The East Sussex Targeted Youth Support team regularly visit and take part in woodland activities. The local Youth Offending Team and the police also
support the centre when young people who have been involved in animal cruelty or risky behaviour that may lead to crime attend.

15. The RSPCA also continues to work on the links between animal abuse and child abuse, in particular raising awareness of these links to help safeguard vulnerable children in our society. All of our new trainee inspectors receive training in safeguarding and awareness of these potential links and we started referring child welfare concerns to the NSPCC in May 2013. For example, one RSPCA inspector visited a house where pet dogs had died from malnourishment. The inspector was concerned about the welfare of a toddler in this house and referred this to the NSPCC. The child is now being cared for by other family members and is subject to a Child Protection Plan and the dog owner was prosecuted for animal cruelty.

Economic Pressures

16. All charities recognise that the economic outlook for our sector is changing and uncertain. The economic climate, recent media coverage of charity fundraising, the Etherington review into charity fundraising and the introduction of a new fundraising regulator have all had an impact on the charity sector in recent years. The full impact of new regulatory changes on the sector has yet to be fully felt or assessed. For example, the RNLI has estimated that changing from opt out to opt in supporter consent methods will cost them £35.6 million over the next five years.

17. Economic pressures are the biggest that the RSPCA are subject to. Although our income has remained stable and our expenditure has tended to slightly reduce in recent years, we are constantly working hard to ensure that we remain in a financially healthy position. This has included work to ensure that our funding mix is more diverse and less reliant on legacy income, which is one of the most erratic sources of income (we have already seen a 7% drop in the proportion of our income derived from legacies). For example, in recent years we have expanded our work with corporate partners and introduced new initiatives such as our Big Walkies fundraising events.

18. However, as a service provision charity the RSPCA is perhaps more vulnerable than others to economic factors beyond our control, particularly ongoing cuts to local authority budgets. Local authorities are responsible for a huge amount of animal welfare enforcement work, including vital services such as stray dog wardens and removing and caring for fly-grazed horses, but the need to prioritise limited funds is

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[^448]: http://rnli.org/howtosupportus/getinvolved/Volunteer-zone/volunteer-zone/Pages/Volunteer-news-content/rnli-news/RNLI-is-first-major-charity-to-give-supporters-control-over-contact-.aspx
leading to these issues being deprioritised. This places clear pressures on the RSPCA to fill the gap. This is exacerbated in some places by local authorities ceasing to do any enforcement work under the Animal Welfare Act in some areas. With no sign that local authority budgets will improve in the foreseeable future, this is an issue which will continue to be a significant pressure on the RSPCA and one which we continue to monitor closely.

19. This also raises the broader point which will always be a pressure on the RSPCA (and other service provision charities), namely that we are not able to control what the demand for our services will be. Although we can and do use our data to map trends in demand over time and prioritise our resources accordingly, ultimately demand will vary year to year and we have to have plans in place to be able to adequately respond to this.

**Digital Innovation**

**Digital Communication**

20. Like most charities, the RSPCA has made increasing use of digital channels for communicating with our supporters. Our website, emails and social media are the backbone of this strategy. Social media in particular has been a key growth area for us in the past few years, both in terms of the number of channels we use and engagement with our supporters. For example, most recently we joined Instagram (the popular photo sharing service) in December 2014 where we currently have over 17,500 followed; our first social media account was on Facebook where we currently have over 577,000 followers. Each social media channel is used slightly differently to target its unique audience in a way that wouldn’t be possible with more traditional communication tools. The advantages of these channels are obvious in that they allow mass communication on a huge scale for minimal, if any, cost.

21. We are also looking at innovative ways to improve the online service that we offer people visiting our website. For example, in recent years we have introduced dedicated channels for reporting cruelty online, removing pressure from our telephone cruelty line. We have also overhauled the way our online rehoming search tool, Find A Pet, operates, using new filters to allow potential rehomers to search for a pet in a similar way that they would search for items on e-commerce sites (for example, searching for a particular breed or size of dog or an animal that can live

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449 For example, Brighton and Hove City Council (who investigated around 300 complaints in 2015) and Birmingham City Council (who investigated approximately 500 complaints per annum) both stopped all enforcement work on dog welfare, saving themselves an estimated £60,000 and £24,000 respectively annually.
with children or an existing pet) and so matching the service we provide to people’s existing habits and behaviours and making the tool work better for them.

Google and the RSPCA

22. The RSPCA is a large and complex organisation and providing the right technology and solutions to allow our staff to do their jobs efficiently whilst minimising cost is a key concern. To this end since 2012 we have partnered with Google to use their Apps for Work service to provide an efficient, cost effective IT package.

23. The savings that this scheme has already delivered are considerable: approximately £1 million over every three year replacement cycle. Our previous system operated from more than 40 servers, all of which have been decommissioned and will never have to be replaced. At £3,500 per server, that saved us £140,000 just on equipment. Digital signage used in our charity shops now costs one tenth of the price we used to pay.

24. The scheme has also delivered major efficiency savings and allowed our geographically diverse staff to work together more quickly, easily and efficiently. For example, RSPCA inspectors, who previously could find it difficult to get timely access to vital services including their email, are now connected into the RSPCA network via smartphones and access to Chromebooks so they can instantly share test results, check documentation, send pictures and request temporary accommodation for an animal at one of our centres whilst they are ‘on the road’. Because Google’s Apps for Work suite of programmes is online our staff are able to view, share and collaborate on documents in real time. The use of Hangouts (online video calling) allows our staff to meet ‘face to face’ without travelling and we have recently adapted a number of meeting rooms in our main office building to allow this to be used more widely. We are now working to encourage more of our branches to adopt Apps for Work so they can enjoy the same benefits.

25. Stepping away from traditional IT packages and services has allowed the RSPCA to become a much more efficient organisation as well as making considerable cost savings, which of course allows us to spend more of our donors’ vital funds on our frontline animal welfare work.450

26. Whilst take up of Apps for Work has been reasonably slow in the charitable sector, local and national government are embracing it as a way of improving efficiency and

450 A video showing how Apps for Work works for the RSPCA in practice is available on our YouTube channel: https://www.youtube.com/watch?v=IhEAwIBD8Es
decreasing costs. For example, the Cabinet Office and HMRC now both use the scheme.

**Governance and Leadership**

27. The RSPCA is a membership organisation and as such our Trustees are directly elected by our members. Trustees are elected each year for a three year term with the results being announced at our AGM, which is open to all members.

28. Our Trustees have a diverse range of knowledge, experience and skills. Some have been Trustees of their local branches, and so have excellent firsthand animal welfare experience, whilst others bring more specialist knowledge in fields such as accounting and the law. All Trustees receive an induction and training programme which gives them a solid grounding in their responsibilities under the law (based on the latest Charity Commission guidance) as well as the way the RSPCA works. Trustees also have access to a dedicated, private web portal which gives them unlimited access to this material as well as Council papers and other updates and materials that they need to fulfil their role.

29. The RSPCA is committed to ensuring that its governance arrangements remain appropriate for a leading national charity and that the Council as our governing body continues to provide effective leadership and accountability for the RSPCA. To this end, in February 2016 our Council unanimously agreed to conduct a review of our governance arrangements. This review, which is ongoing, is led by an independent external body and will report back in due course. We look forward to receiving their report and acting on its findings.

*5 September 2016*
Rural Community Council of Essex — Written evidence (CHA0096)

Rural Community Council of Essex — Written evidence (CHA0096)

Introduction

Rural Community Council of Essex (RCCE) is a registered charity and a company limited by guarantee that is working to help rural communities in Essex achieve a thriving and sustainable future. It addresses issues such as social isolation, poor access to services and a shortage of affordable housing that impact on the sustainability of communities and the life chances of many individuals and families living in rural Essex today.

RCCE was set up in 1929 and is a member of the ACRE network of Rural Community Councils.

RCCE Response to Questions from the Select Committee

Question 1: What is the role and purpose of charities in civic society in England and Wales?

- What role can charities play in community cohesion and civic action?

1. Charities are ideally placed to engage in initiatives to promote community cohesion and civic action. RCCE’s status as an independent charity, standing outside of the statutory sector, is critical to it engendering the trust and confidence of communities and individuals. This is apparent in situations as diverse as supporting elderly people experiencing social isolation and facilitating the provision of affordable housing in rural communities.

Question 2: What are the main pressures faced by charities currently, and what impact have these had?

2. Securing financial sustainability represents the most significant pressure, especially for charities which as a result of their purpose and beneficiaries may have limited scope to sell services, and which although providing an essential service, may similarly lack the fundraising appeal of major medical or environmental charities. There are a number of more specific concerns around this issue we would want to highlight. These relate not to a lack of funding per se but to the way in which funding is currently made available.

3. A lot of funding programmes/contracts are short-term in nature – often of 1 or 2 years duration. This inhibits long-term planning and strategic thinking and gives little time to demonstrate tangible outcomes and social impact.

4. The commissioning of services by local government has opened up new opportunities for charities but many find it hard to compete on an equal footing with larger, established providers who can demonstrate economies of scale. In Essex, a number of charities, including RCCE are seeking to address this by setting up a bidding consortium.

5. Many funding programmes target ‘areas of deprivation’. This discriminates unfairly against rural areas because conventional measures of deprivation tend not to recognise rural deprivation, which is less geographically concentrated than urban deprivation.
6. Similarly, many programmes focus strongly on ‘innovation’ and will not fund existing work. This can discriminate against a service or project established under a short-term programme, which has demonstrated a need and built up a dependent client base, but now requires funding to sustain itself on a longer-term basis.

7. RCCE supports well over 200 village halls and other similar community buildings in Essex, most of which are themselves charities, entirely managed by volunteers. Many halls are 60 or more years old and require substantial investment or even replacement if they are to continue to function as focal points of community life in rural areas. However, there is at present no dedicated capital funding programme for village halls, which makes fundraising for a new hall or major rebuild, a dauntingly long-term process for volunteers.

8. In Essex, the Community Initiatives Fund set up by Essex County Council does an excellent job in providing funding for smaller charitable and community projects. It has provided more than £18.5 million in funding over 10 years, but there are few if any equivalents to this elsewhere in the country.

9. Charities and voluntary organisations have benefitted substantially from funding from European Union programmes. These will in time cease as a result of ‘Brexit’. Government needs to ensure that commitments already in place are honoured for programmes as well as projects and to consider the development of appropriate UK programmes as a longer-term replacement.

Question 5: What role should trustees play in the performance and effectiveness of a charity?

10. In medium size and larger charities employing professional staff it is critical that the divide between governance and management functions is properly understood by both parties. In fulfilling the governance role, Trustees have a vital role to play in setting the strategic objectives and monitoring the performance of the charity.

11. In recent years, RCCE has focussed on recruiting Trustees with specific skill sets rather than from particular organisations. It has dispensed with any formal ex-officio representation on its Board. It is essential that trustees are focussed on the interests and development of the charity, not on maintaining a ‘watching brief’ for other organisations.

12. Smaller charities are almost wholly dependent on Trustees. RCCE supports many village halls and similar community buildings which are struggling to attract or retain Trustees. Personal liability for Trustees is a major concern in unincorporated charities and some experienced, capable Trustees have resigned on being made fully aware of this issue. The Charitable Incorporated Organisation (CIO) model developed by the Charity Commission, offers a potential solution, but the process and legal costs involved in transferring to CIO status are too much for smaller charities and need to be reviewed.

Question 8: What is the potential of social investment and social impact bonds?

13. Social investment represents an important opportunity for charities, but it will never be a panacea for the whole sector. It should be recognised that not all charities will have the ability to sell services and/or generate sufficient income in order to repay the investment.
Question 9: What should the role of Government be with the sector?

14. It is essential that Government at all levels recognises the expertise, skills and experience of charities and must be genuinely committed to devolving opportunities to the sector. The civil society agenda presents an obvious opportunity to do this.

15. Government must recognise the extent to which community life in rural areas is dependent on volunteers and that small, local voluntary groups require the advice and support of intermediary bodies such as Rural Community Councils in order to survive and fulfil their purpose. In Essex, the County Council recognises RCCE as its principal partner for rural delivery and accordingly commissions it to deliver specific services to rural communities.

16. The Charity Commission deserves credit for introducing the Charitable Incorporated Organisation (CIO) model, in response to smaller charities’ anxieties over personal liability, but it must now recognise and address the cost implications which are deterring many charities from pursuing this option (ref. 12 above). More generally, the Charity Commission should continue to explore alternative modes of governance that are responsive to contemporary needs.

17. The Charity Commission could benefit from engaging more with Rural Community Councils, who in providing a nationwide support service for village halls and community buildings already possess a well-established relationship with thousands of small, local charities.

5 September 2016
1. Executive summary/main recommendations

- 1 The sustainability of charities depends upon a proper understanding of their purposes.
- 2 The overall purpose of The Salvation Army is to enable human flourishing that is physical, mental and spiritual.
- 3 That purpose is worked out in many different social roles that align civil society with the state, the family and in some cases with the market.
- 4 New social problems need democratic debate if the role of the sector is to remain clear.
- 5 Localism needs to be fully democratic if charities are to understand their role.
  - 6 We ask that the committee take the ethos, continuity, breadth and complexity of charities into account in its recommendations.

2. About The Salvation Army

2.1 The Salvation Army is a Christian church and charity present in 700 communities in the UK. Its main areas of charitable work are:

- Employment Services providing welfare to work programmes and work clubs. We are currently involved in the Work Programme as a tier 1 end-to-end subcontractor to three different primes in two contract package areas. In addition we provide one Work Choice and one Jobcentre Support contract.

- Homelessness Services providing residential and community-based support mainly for single homeless people.

- Community Services offering a diverse range of services mainly through our local churches in response to the needs they encounter in their local communities.

- Older People’s Services providing residential care to older people and community-based activities.

- Supporting victims of Modern Slavery. We currently coordinate the provision of support and accommodation services to adult victims of modern slavery in England and Wales, through the government’s Adult Victims of Modern Slavery Care and Coordination Services Contract.

- Family Tracing Services reuniting families who have lost contact with a family member.

We are also a worldwide Christian denomination present in 127 countries. In the UK there are just under 700 local churches most of whom deliver community services alongside
opportunities to worship, pastoral care, the nurture of people in the Christian faith and communication of the gospel.

2.2 Drawing on its Christian beliefs, The Salvation Army adopts an holistic approach to service provision. As appropriate it works with people to ensure:

- A secure and adequate income
- Affordable and decent housing
- Good mental and physical health including addressing addictions
- A sense of purpose deriving from meaningful activity whether paid work, volunteering or learning
- A set of supportive relationships

Where we cannot deliver these things ourselves we work with others. Our service users have access to chaplaincy or pastoral care which they can engage with if they wish.

3. **Focus of the Response**

We welcome the current Inquiry and its focus on the sustainability of the charitable sector in England and Wales. This response focuses on the purposes of charitable action. It does so in the belief that most of the questions raised by the Inquiry can only be resolved if related to the diversity and longevity of charitable purposes. The Salvation Army is 150 years old and engages in a real breadth of purposes. As such it feels that emphasising the roles charities play in society is the most helpful contribution it can make.

4. **The role of The Salvation Army in England and Wales**

4.1 It is an achievement of democratic societies that assets can be held in trust to achieve purposes which are agreed to be socially beneficial. This act of trust gives the public confidence that they can donate their time and money and creativity to achieve things which they could not achieve as an individual citizen. The state agrees to support this act of trust by regulating and making tax concessions to charities. Citizens are given a freedom to act that is in addition to the freedoms they have to form households, elect politicians and start businesses.

4.2 Trustees hold this trust on behalf of society and so it is vital that they are clear about the purposes of the charity. This could lead to an assumption that the simpler a charity’s purposes the better but in fact long-lasting and complex organisations are helpful in responding to social and economic change and giving continuity of expression to beneficial social values. The Salvation Army pre-dates the welfare state and works in many countries
without a welfare state and so its beneficial purpose of enabling human flourishing is shaped and reshaped in each society it works in.

4.3 The charitable work of The Salvation Army encompasses the following social purposes, all of which enact its core purpose of enabling human flourishing:

i. Service provision supplementary to that provided by the state

ii. Service provision complementary to that provided by the state

iii. Service provision as an agent of the state

iv. Service provision offering an alternative to the state or market

v. Building of family life

vi. Building of community life

vii. Trading for charitable purposes

4.4 Examples of each are given by way of illustration. They are not an exhaustive account of our work.

i. Service provision supplementary to that provided by the state

From its inception The Salvation Army has provided a Family Tracing Service that reunites family members who have lost contact with each other. About 2,500 families a year are reunited, bringing great joy, but also the ongoing support of an extended family. The state has never sought to provide such a service yet it is a beneficial social purpose with requires skilled case workers to be employed and which the public are happy to support through donations.

The Salvation Army provides activity holidays for disadvantaged children. This goes above and beyond the state’s obligations to them yet it provides experiences of human flourishing and joy that stretch those children’s horizons.

ii. Service provision complementary to that provided by the state

In some communities The Salvation Army forms a close relationship with a local school and provides support and services that enable the school to better achieve its social purposes. This can include breakfast and afterschool clubs as well as practical assistance to struggling parents. In England and Wales this service is complementary to the state. In other countries where the state does not provide education, The Salvation Army is a significant provider of primary education.
iii. Service provision as an agent of the state

The Salvation Army has through its history provided services on behalf of the state. The nature of those services has depended upon what the state wished to delegate and terms upon which it wished to delegate it. In doing this The Salvation Army has aligned itself with the democratic purposes of the state to secure the welfare of its citizens. In coming forward alongside other organisations from the charitable and private sectors it has sought to safeguard the adequacy and quality of the services provided in the interests of social justice.

Examples in England and Wales would include:

- Contracts with Local Authorities to provide rehabilitation and support to single adults experiencing homelessness.
- Contracts with DWP to provide welfare to work programmes.
- A contract with the Home Office to coordinate and provide the support for Victims of Modern Slavery.

For the Work Programme it was particularly important to us that we could provide a service to everyone referred to us by the Job Centre. This was to counter early suggestions that providers would have to target a proportion of referrals only. The generosity of our donors enables us to offer enhancements to the contracted services. It is disappointing when the state tries to ‘bank’ this generosity and reduce the money it provides for those aspects of the service it requires.

iv. Service provision offering an alternative to the state or market

There are some areas of service provision where a market or quasi-market for services has developed. A key example would be the residential care of older people. The Salvation Army provides services both to those who fund themselves and those whose fees are paid by the Local Authority. Those who fund their own care choose us for the continuity of ethos and sensitivity to end of life care. Our homes make no distinction between the source of a resident’s fees offering the same quality of care and ethos.

Over fifty of our churches run Employment Plus Locals that provide help to those seeking work. In theory this duplicates services the state provides through the Job Centre Plus network. In practice those who access this support often have difficulty communicating their needs in the short time slots available at the Job Centre, have additional difficulties with their job search which the Job Centre is unable to address or live in a town without a Job Centre and so struggle to afford the fares to visit the Job Centre.

v. Building of family life
Salvation Army churches both host and run a range of activities designed to support family life. These include parent and baby groups, parent and toddler groups, clubs for children, activities for families. The mutual support which parents can offer each other is encouraged and signposting to services when particular needs emerge takes place. For some families the informality of these activities feels more accessible than the formality of engaging with schools and the health system. Particular attention is given to safeguarding training and practices so that informality does not lead to bad practice.

vi. Building of community life
Salvation Army churches both host and support a range of community building activities. Making premises available at reasonable cost, supplying volunteers or helping with fundraising are acts of practical community building. Many self-help groups rely upon low cost community facilities to function. Salvation Army churches are given the discretion to make a response that best fits the needs of their local community.

vii. Trading for charitable purposes
Almost since its inception The Salvation Army has traded for charitable purposes. It provides financial services through Reliance Bank and SAGIC. Other trading activities are grouped together into the Salvation Army Trading Company. The most significant is the recycling of textiles and the running of charity shops. This activity removes significant amounts of textiles from landfill and enables reuse and recycling. Charity shops are socially beneficial in allowing customers to access goods they could not afford on the open market and providing opportunities to volunteer.

4.5 Apart from the rise of the Welfare State, there is little here that William Booth did not envisage in his 1890 social manifesto called Darkest England and the Way Out. The Salvation Army is an example of how charities offer significant continuity of social purpose and ethos and yet respond to changes in family life, the provision of the state and the activities of the market.

5. Examples of unclear purpose
5.1 If clarity of purpose is important then social changes that reduce clarity need close scrutiny. Charities have often identified emerging social needs and provided services to meet them. They have often identified gaps in the provision of the welfare state and stepped forward. In a democratic society citizens need to have a clear understanding of what the state will provide and whether the scope of that provision is decided at Westminster, in national assemblies or local authorities. It is unhelpful if charities blur that entitlement but in practice the compassion of front line charitable response to the immediacy of need does just that.
Some examples

5.2 Cash flow crises experienced by those on working age benefits or on a low income. Running a household on a low income means that even fairly small unexpected events can cause a cash flow crisis. These might include a repair to white goods or travel to a family funeral. In the past, helping people over these cash flow crises was seen as the responsibility of the state in the form of the Social Fund. The process of Welfare Reform has devolved this responsibility to Local Authorities some of whom only offer ‘in kind’ support rather than cash. This has led to a significant increase in the number of people approaching churches and charities for practical assistance (e.g. food, meter top ups, travel tickets) when faced with such a crisis. Job Centre Plus is able to provide short-term loans but for many the process involved in applying for them and the difficulty in repaying does not deal with the crisis they face. Is mitigating these cash flow crises a task moving from the state to the voluntary sector? If it is, what uniformity of access to support is there for people on low incomes across the country?

5.3 Follow-on accommodation for single people who have experienced a period of homelessness is proving increasingly difficult to obtain. This reflects the general housing shortage, the reduced availability of social housing and the unwillingness of many landlords in the private rented sector to accept tenants claiming housing benefit. The Salvation Army is proud of the public service it provides in working with people to resolve the issues that have triggered their homelessness so they are ready to move on, but dismayed when the accommodation available is of less good quality than the hostels it runs, or when the tenure is for six months and so offers little stability. To place someone in a sub-standard property or with an insecure tenure is to risk the investment of public funds made to rehabilitate the person. Where does responsibility for this lack of affordable, decent and secure tenure housing lie?

5.4 Budgeting and Debt Advice is emerging as a significant need for people on low incomes and for those moving into work. In delivering the Work Programme we find that as many as 70% of clients come to us with unmanageable debt. Working for a low income requires budgeting skills to overcome the poverty premium and calculate what level of social participation is possible once essentials are purchased. Local Authorities have been a significant source of funding for organisations providing debt advice but across the country we find that the number of staff or sessions they can fund is decreasing. If people on low incomes are to sustain jobs and tenancies then tackling unmanageable debt is a priority. Whose responsibility is it to ensure that sufficient accessible services are provided? The cost to the state of families without work or housing is considerable. Is it a false economy not to fund such services?
5.5 We are not arguing that there is a ‘correct’ location for such services or that they fall outside the charitable sector rather that they need to be the subject of vigorous democratic debate so that both state and donor resources can be best directed.

6. The impact of localism

6.1 Devolution and localism mean that more of the decisions about what the state will provide and how that provision will be administered will be taken outside Westminster. These decisions have a material effect on human flourishing and can lead to calls for charities to change their services in response. It is therefore vital that local people can understand when and where these decisions are being made and have the opportunity both to respond to consultations and to hold decision-makers to account.

6.2 At present it is far from easy to identify all the local bodies that might be making such decisions or easily gain access to the consultation exercises they may be undertaking. Some common standards of consultation would be helpful in ensuring that charities can be clear about their purposes and understand their role in relation to state provision. Charities as civil society actors can also be helpful in holding the implementation of such decisions to account as their effects are experienced by their members and service users.

7. Conclusions

As an historic, large and diverse organisation, The Salvation Army covers many of the rationales and roles available to charities in England and Wales. As both church and charity it has an explicitly Christian ethos which it enacts through a concern for human flourishing for all in society. We ask that the committee take this ethos, continuity, breadth and complexity into account in its recommendations.

5 September 2016
1. Introduction

1.1 Save the Children works in 120 countries around the world including the UK to ensure that every child has a chance, including a healthy start in life, the opportunity to learn and protection from harm.

1.2 In the UK, we have around 800,000 active supporters who donate to our work, support our advocacy and campaigns or volunteer with our programmes. Last year we responded to 97 separate emergencies around the world, and helped 17.5 million children, including 9.8 million with health and nutrition and 6.3 million through our education programmes. The support of the public is vital if we are to meet the ever increasing humanitarian needs.

1.3 Save the Children puts public accountability to supporters, donors, partners and children at the heart of our work.

1.4 We recognise that one of the key challenges facing the charity sector is ensuring public trust and confidence in our work, particularly through continuing to improve accountability and transparency.

1.5 It is vital that to keep the public’s trust, we treat our supporters with respect and safeguards are in place to always protect the vulnerable, in order to maintain the amazing culture of generosity that is part of British society.

1.6 This responsibility to our supporters is embedded across our organisation – in our governance, frontline programmes, internal systems and processes and engagement with supporters and the public through our advocacy and campaigns. This submission focusses on the ways in which we are fulfilling our commitments to accountability and transparency in our fundraising – recognising charity fundraising has been the source of significant public concern over the last year.

2. Publishing an annual assessment of our progress in accountability and transparency

2.1 In 2016 we published our fourth Accountability and Transparency Report, as a companion to our Annual Report - designed to be a frank assessment for our supporters of our effectiveness and how our practices match up to our organisational values.

2.2 The Annual Accountability and Transparency Report contains information about our financial, social and environmental accountabilities, in line with our mission and vision and was established in 2012 as part of our ongoing efforts to improve our accountability to our supporters.

2.3 The report provides an opportunity to review how we are maintaining our commitments to improve our participation, accountability and transparency and to
assess where there is further progress needed. It lists progress such as improvements to the quality and impact of our programmes, alongside areas where mistakes have been made and there is need for improvement. We do this by testing Save the Children’s activity against our own commitments and expectations alongside adherence to recognised accountability standards.

2.4 For example, the recent publication of our report for 2015, alongside our Annual Report, highlighted the following areas of progress:

- Strengthening our annual reporting to give a fuller account of delivery against our targets and improving transparency to all our supporters. This has included improved financial and fraud reporting and more detailed information about our risks and uncertainties.

- Improving the quality and impact of our programmes. This has included continuing to strengthen our programme design process, as well as building capacity in communities for monitoring, evaluation, accountability and learning.

- Improved accountability and transparency to our supporters. This has included launching a Supporter Promise, a new pledge to our supporters that guarantees no cold telephone calling and no sharing or selling of any individual’s details, and allows donors to choose how they are contacted.

2.5 However it also set out the following areas which need further work:

- Ensuring children are able to better influence programme direction; this includes implementing mechanisms to reinforce our transparency to children and communities and promoting their involvement in decision-making. It also means ensuring that feedback and complaints procedures are clear and accessible.

- Improving our programme data transparency by making more information available on our website and in reports.

- Implementing a new People Promise so we can better support and enable our staff to achieve more impact for children.

- Trying to better understand the environmental impact of our work.

2.6 In publishing the Accountability and Transparency Report we are better able to have an open and honest dialogue with our supporters about the challenges we face and how we are working to improve.

3. **Holding ourselves accountable to supporters and donors with a public promise**
3.1 In July 2015 Save the Children set out a new Supporter Promise. This is the guiding principle for all our fundraising activity, and a commitment to our supporters which guarantees no telephone cold calling and no sharing or selling of any individual’s details. It also commits to making it easy for supporters to choose how and when they are contacted by us.

3.2 Our work on the Supporter Promise, as part of our supporter strategy, encompassing campaigning, fundraising and volunteering, predated the Daily Mail investigations into charity fundraising in 2015, however it enabled us to respond to public and supporters’ concerns about the unacceptable practices exposed.

3.3 The Supporter Promise is published on our website, promising:

- **Transparency about how we use your donations**
  - We spend donations so they have the most impact for children.
  - We value every gift and we will always put your gift to work as quickly as we can.

- **Amazing stories that show how you’re helping transform children’s lives**
  - Your support helps children all over the world. We’ll share stories of our work and be honest about the challenges we face.
  - When an emergency strikes, we’ll do our best to contact you to let you know how children are affected.

- **Respect for your privacy and your generosity**
  - We will not make cold telephone calls to members of the general public.
  - We’ll never sell your data and only share it if you ask us to.

- **An approach that’s right for you**
  - We’ll make it clear and easy for you to choose how you hear from us. If you ask us not to contact you we won’t, unless it’s a legal requirement.
  - Our staff, suppliers and volunteers will adhere to the Institute of Fundraisings’ policy on vulnerable people (link is external).

- **A friendly and open response when you get in touch**
  - Sometimes we work with external suppliers to contact you, simply because our team isn’t big enough. We’ll train, monitor and regulate our external suppliers to meet our standards.
  - When we get things wrong, we’ll be upfront about our mistakes, apologise and fix them.

3.4 The promise re-affirms longstanding commitments such as not to sell supporters’ data, but also includes new pledges. For example we have re-worked many of our opt in/opt out messages to make them easier and clearer for supporters to control how and when they are contacted by us.
3.5 Central to our accountability efforts is the ethos of putting our supporters at the heart of what we do. By understanding our supporters more closely we can seek to continuously improve the experience we offer them and meet and exceed their needs. New activity to make this ambition a reality has included:

3.6 A new system to test satisfaction in, and gain feedback on, our telephone contact with supporters – follow-up SMS messages have offered supporters the opportunity to give feedback on our approach to phone calls and have shown that 94% of people are satisfied with their call experience (based on 569 responses, March-August 2016).

3.7 We have introduced a new contact management strategy, which identifies as many as 25 different ‘segments’ of supporters and ensures they only receive communications tailored to their interests and contact preferences.

4. Maintaining robust & resilient governance

4.1 In a rapidly changing environment, we have endeavoured to ensure that our fundraising governance structures remain robust and resilient and that senior staff and trustees have clear oversight of our strategy, policy and practices in line with the latest best practice guidance (e.g. the Charity Commission’s ‘CC20’ guidance on fundraising).

4.2 Our Trustees reviewed governance of fundraising in July 2016, following the publication of CC20, bolstering two of the three current pillars of our fundraising governance, and creating a new advisory group.

- **Donation Acceptance Committee:** the remit of this Board subcommittee was extended to consider the wider implications of any commercial partnerships or arrangements that SCUK or our trading subsidiary are proposing to enter into (alongside high risk corporate and individual donations which it already considers).

- **Audit Committee:** Trustees bolstered the responsibilities of this Board Subcommittee to provide further assurance over fundraising risk management, internal control and compliance.

- **Finance Committee:** no changes were made to this subcommittee - scrutiny of the financial performance of, and budget for, our fundraising activity will remain within the remit of the Finance Committee

- **Supporter Relationship Advisory Group:** Trustees agreed to create an advisory group to support the Board in decision-making around fundraising and supporter engagement strategy through the provision of external best practice & expert guidance.

5. Helping to shape the new regulatory framework for the sector

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5.1 Save the Children strongly supports the strengthening of self-regulation for fundraising, and we are supporting the new Fundraising Regulator to achieve this. We believe that, delivered successfully, the changes currently underway can improve the accountability and profile of the sector as a whole.

5.2 We support, in principle, the role that the Fundraising Preference Service can play in protecting vulnerable people and donor choice, and we welcome the efforts of the Fundraising Regulator to balance delivery of these aims whilst allowing us to maintain our commitments to our beneficiaries. We believe that it is crucial that the service provides the public with a spectrum of choices on how they want to engage with charities so that strong and positive existing relationships between supporters and charities are not disrupted by members of the public choosing to opt-out of ‘cold’ approaches from other charities.

5.3 Alongside working with the sector on better regulation, we will continue to look at our own practice and our duty to our supporters. This will be absolutely vital if we are to rebuild public trust and maintain the amazing culture of generosity that is part of British society.

12 September 2016
Introduction

SCVO welcome the opportunity to contribute to the Select Committee’s work as it considers issues related to sustaining the charity sector and the challenges of charity governance in England and Wales.

This note reflects on these themes as they play out for charities in Scotland. In Appendix I, we set out a recent report on the state of the sector in Scotland.

The Purpose of Charities

Charities exist for a variety of reasons and operate in a panoply of social and environmental arenas. Taking a broad sectoral view is helpful in understanding that charities, like individuals, contribute to our society and strengthen our communities in diverse ways.

At its best, third sector organisations are the animators, mobilisers, developers and innovators in society, and the vehicles by which people can come together to drive change. The relative health of the sector can be measured in different ways. However, the number of organisations active, the growth in newly founded groups, levels of public engagement and involvement and the range of causes championed are important yardsticks.

Relationships

Government

The nature of relationships between the sector and government across the UK has diverged since devolution – alongside cultural differences, the asymmetric nature of devolved powers and different political and economic trajectories. In Scotland, relations between our sector and the Scottish Government are robust and friendly. There is an engaged and diverse policy development culture, with charities routinely injecting evidence, narratives and life into the work of the Scottish Parliament. By contrast our sector’s engagement with the UK Government is mostly episodic and adversarial.

Since devolution, the Scottish Government has made sustained investments into the capacity of the third sector, without undue threats to our independence. Relationships are generally respectful of our different roles and of the diversity and pluralism which is a key characteristic of the charitable sector.

However, it is clear to us that the full value of what voluntary organisations can contribute to public life has yet to be realised on either side of the border. For example, social care services in all parts of the UK are currently enveloped in a crisis, as a result of demographic change, multi-morbidities, rising demand and public sector austerity. Given that industrial scale commissioning of professional care services has proven to be unsustainable, the role of the third sector in enhancing the capacity of citizens to help themselves represents one of the key ways in which demand for formal services can be contained.
Despite the benefits which this could bring, prevention and community capacity building are marginalised and precarious. A more creative and respectful partnership with central and local government could realise some of the latent potential in our sector, to compliment as well as provide public services. Continued efforts to establish a simple commercial relationship of procurement and delivery, between the sector and government, will fail to realise the full value of the sector and see charities reduced to no more than delivery agents for commoditised public services.

Instead, society building ought, perhaps, to be a central condition of commissioning services. Does it strengthen the community? Is it person centred and empowering? Does it build connections between citizens and their communities? We need to strengthen the capacity of those who can say an unequivocal ‘yes’ to those challenges.

The sector is not, and can never be, a simple instrument of government policy. It follows that government should concern itself rather less with the issues and challenges, for example, which large fundraising charities are rightly facing, or with the many other issues our sector have to confront. A friendly and respectful partner would instead offer sympathy and tactical support on the premise that a strong sector is good for everyone.

Disappointingly, the tone of much of what has been said in the past year falls well short of being helpful. As a result, when asked about contributing to the new Fundraising Regulator, our members and the fundraising community in Scotland were unequivocal in wanting to disassociate themselves from what they perceived to be a toxic environment.

Government/Sector relationships can, and are, affected quite fundamentally by political change. A pattern of high and low points can be measured over time in many jurisdictions around the world – although we lack the any international forum to reflect on the implications and to consolidate best practice. It is perhaps a sign of the immaturity of the relationship that political colour matters, considering that the case for mutual understanding and joint action where priorities align is universal. With civil society growing in practically every country in the world, it is time for the sector and government to become smarter at recognising the benefits of collaboration.

We believe there is enormous, as yet largely untapped, synergy to be had from partnerships between charities, voluntary organisations and social enterprises and governments. We are unconvinced that some of society’s most compelling problems can be addressed without such partnerships.

Regulator

SCVO and our members have a positive working relationship with the Office of the Scottish Charity Regulator (OSCR) to maintain high standards of regulation and governance, as well as high levels of public confidence in charities.

Most recently, SCVO, OSCR and the Scottish Government worked in collaboration to successfully establish a new fundraising complaints system for Scotland, which resulted in
the creation of a simple and proportionate system of self-regulation which has been operating smoothly since its introduction.

In a sector as diverse and pluralistic as ours it is important that the concept of best practice remains contentious. It therefore follows that good regulation should stay as close as possible to advising on the law and statutory requirements, rather than embark upon what are often ill-advised sorties in to the world of what a narrow section of people think ought to be right. As such, regulators should avoid any temptation to see themselves as instruments of social change.

**The Public**

Charitable giving remains hugely important to Scotland’s third sector organisations, not just in the quantum raised, but in the number of people who are involved in fundraising and volunteering.

Our recent Ipsos MORI survey showed that 9 out of 10 (89%) respondents have personally supported a charity in some way in the last year, donating money or goods, or giving their time as volunteers and supporters. This compares to 81% for the wider UK overall.

Charities of all sorts face pressing issues about their legitimacy, transparency and accountability. Of primary import is how they address those issues to better empower the people and communities they serve. Funders and patrons, volunteers and staff are important stakeholders, but public trust is paramount.

It would be our contention that public confidence would be difficult to recover if it is first lost, so great care must be taken so as not to undermine those bonds. Of course these issues play out in different ways across the UK, due in no small part to the culture, scale and circumstances in which we live and work. Whilst there are some over-arching issues which our sector is grappling with (e.g. the rise of food poverty or the need for action on climate change) responses diverge, at least partly because vast majority of charitable endeavour in Scotland is through the work of autonomous and indigenous organisations. In **Appendix II**, we provide the information gained from a November 2015 Ipsos MORI survey – commissioned by SCVO – to gauge public attitudes towards charities in Scotland.

With charities of all sizes operating in a variety of fields – and with different aims – it is perhaps no longer useful to attempt to define the role of ‘charity’ in our society and instead look at the sector as a critical pillar of society, which contributes in a diverse and pluralistic way.

**Agents of Change**

It is important that charities are treated with respect and not viewed as problematic or politically motivated when they make criticisms of government. Legislative attempts to silence charities and growing hostility in the press has clearly undermined public trust and, if not addressed, will inevitably lead to a loss in charitable giving public, whilst also making it
harder to engage with individuals and communities. Our society will be damaged by a reduced role for charities in public life.

Finally, in Scotland, we have come to understand the critical importance of our ability to campaign and lobby for public good. Governments must not happen this or undermine our capacity to represent out members and causes. There remains significant concern regarding the Transparency of Lobbying Act and proposals by the Cabinet Office to introduce an ‘anti-advocacy’ clause to UK Government grants – two examples which harm the prospect of vigorous or even evidential debate on public policy. We expect these to be resisted in Scotland.

About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £4.9 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1,800 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1,800 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
- brings together organisations and networks connecting across the whole of Scotland
- SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change.


31 October 2016
1. Introduction

1.1 Sense is a national charity that for over 60 years has worked with people who are deafblind, and those with sensory impairments and complex needs. Sense supports and campaigns for people of all ages, from children through to older people, and provides information and advice, as well as specialist services to individuals, their families, and the professionals who work with them.

1.2 Sense (like many charities) relies on a combination of public finance from Local Authorities and charitable income from donors. This combination has traditionally brought added value.

2. Summary

2.1 Sense welcomes the House of Lords Select Committee’s inquiry into the sustainability of charities, the voluntary sector and the challenges of charity governance. We make a number of points below in response to the questions set by the committee.

- The importance of the sector is demonstrated by figures from NCVO which show that in 2013/14 (excluding universities, housing associations and faith based organisations) there were 163,000 charities responsible for a collective income of £44bn, with spending of almost £42bn per annum. There were at that time 827,000 people working in the sector.

- Charities are uniquely placed to play a vital role in Civil Society, as they are close to the people they support. Charities have always worked in close partnership with Government and there has been a respect and mutual understanding of each other’s role leading to many positive outcomes for the wider community. Generally this has been an example of how positive dialogue and engagement can take place between Civil Society and Government.

2.2 While we believe there is always room for improvement we are concerned that the ‘tone’ of recent narrative undermines the work charities have undertaken over many years. We are not convinced that the responses to recent ‘exceptional situations’ are proportionate.

2.3 Charities themselves should do more to represent the whole sector rather than individual interests. We believe charities can and should be part of the solution. There is a responsibility on all of us to work towards that goal.
2.4 The period of austerity following the economic crash in 2007 has had a profound impact on public finances, particularly at a local authority level. This has impacted on the finances and sustainability of many charities, and consequently on the lives of vulnerable people. The financial pressures have continued as outlined below:

In contracted funding:

Historically:

- The reductions in fees for services from Local Authorities. Sense estimates a cost over a ten year period of around £4m
- Defined and auto enrolment pension costs have also increased our challenges.

Additionally and going forward:

- The introduction of the National Minimum Wage and the Apprenticeship Levy which, although welcome, will (we estimate) add a further £3.2m and £900,000 in costs respectively by 2020.
- Further we believe there will be lost opportunities (which is difficult to calculate). However EU funding (UK and international) is likely to be under threat. Over the previous 5 years Sense received EU grants of £1.5m.
- Were the mandatory rate relief to charity shops to be ended there would be a further reduction.

In charitable funding:

- Following recent high-profile cases, the public have become suspicious of charity fundraising, and this has had an impact on donation levels.
- Sense provides around £4m of charitable services per year to vulnerable people including £1m to children’s services. Given the situation with charitable income it is likely that we will have to reduce this.

The Charity Commission and Regulation

2.5 We note below that based on Charity Commission estimates there are currently around one million volunteer Trustees. We believe this is an important resource demonstrating that people are willing to be ‘active citizens’.

2.6 We also note a discernible increase in regulation, with resulting complexities and costs which we are not convinced is proportionate or indeed achieves the intended outcomes.
2.7 The Charity Commission and indeed the Government could do more to promote and celebrate the independent role that charities play and the many good things achieved by the sector.

Innovation and response

2.8 Sense is investing in social enterprise developments incorporating social care, local communities, business and fundraising. This integrated model benefits disabled people and their local communities. TouchBase models provide a range of services from social care to public facing café and arts and wellbeing initiatives (details are available).

2.9 We use a wide range of technology and digital aids and more could be done with increased investment.

2.10 We have almost 2,500 people volunteering across the charity every year who undertake a range of activities. This is one example of the public involvement of people with charities across the sector and the added value which our sector brings.

3. About Sense

3.1 Sense was founded in 1955 by families who had deafblind children after being affected by rubella during pregnancy. Over the years Sense has developed new ways of tackling complex communication and mobility needs. This specialist knowledge has enabled the charity to diversify its support and reach a broader group of people with complex disabilities. Today we estimate there are approximately 356,000 people in the UK who are deafblind, 22,000 of them children. By 2030, Sense estimates there will be well over half a million people with sensory impairment over the age of 70 in the UK. In addition there are 250,000 people who are blind or visually impaired and have additional disabilities.

3.2 Sense employs over 2,000 people across our services in England, Wales and Northern Ireland. We provide a wide range of services; from 24 hour care in accommodation, to services in the community, supporting people to live in their own homes, or enabling people’s independence and creativity through our arts and sports programmes. We also have a College where people with complex disabilities between 16 and 25 can learn and develop. Sense has two sister charities - Sense Scotland and Sense International, which works with partner agencies in East Africa, India & Bangladesh, Peru and Romania providing services for deafblind children and adults.

4. Current pressures and impact

4.1 Financial pressures on direct service delivery
4.1.1 Sense provides diverse services commissioned by Local Authorities and Clinical Commissioning Groups, which range from high-level 24 hour care, to short term interventions of an hour or two a week to enable individuals to remain independently in their homes. Such support aims to increase independence, reduce isolation and avoid the need for expensive and unplanned interventions at a later stage. We believe if service provision charities such as Sense become less able to support beneficiaries, there is the real potential that significant costs will be accrued in the longer term – both financial, and in relation to outcomes of individuals.

4.1.2 Sense is commissioned by local authorities to provide a number of services to individuals with long-term complex disabilities. There is rising demand for support from our beneficiaries. For the majority of these care packages and placements, Sense has received no financial uplift from Local Authorities for the last 5-10 years (details are available).

4.1.3 Reduced or unpredictable funding causes other pressures, for example, on staffing where we wish to recruit and retain the best skilled staff. Where possible, we have offered annual salary increases to staff without any commensurate increase from the purchasing Local Authority. Sense estimates that the lack of Local Authority fee increases over a 10 year period is in excess of £4m. This is without including the cost of pension provision that has also grown for both historic scheme deficits and following auto-enrolment.

4.1.4 We welcome the commitment to the national living wage. We estimate this will add £3.2m to the Sense salary bill by the end of the full implementation in 2020. None of the 132 Local Authorities that Sense provides services for have committed to increasing their fees. It is likely that we will have to withdraw from a number of services. In addition the government is also proposing an Apprenticeship Levy. We estimate that this will cost Sense £900,000 over the next 5 years and again there is no indication that Local Authorities will increase fees.

4.1.5 Unsurprisingly Local Authorities (when commissioning services) are increasingly selecting providers more on cost, rather than the ability to deliver quality services. Cuts to Local Authority budgets also mean that commissioners can only provide services for people with the most complex needs, often at the expense of early intervention or preventative services. Sense used to provide some of these services through charitable funding. For example £1m per year for our specialist children’s services. Given the reductions in fundraised income we now have to reduce our charitable services. These range from practical ‘hands on’ support to children with complex needs and their families through to (non-mandatory) staff training, advice and information as well as investment for the future.
4.1.6 Given the above points, it is clear that the demands on the social care system are increasing, and that funding has not kept in step with demand. Further investment in social care will be vital to meet increasing needs (demographics, children with complex health needs surviving and older people living longer). It seems unlikely (as was the case in the past) that there will be sufficient charity finances to bridge the gap.

4.1.7 We are now seeing increased examples of real hardship. More families are reporting difficulties in getting a range of services from statutory required assessments and provision of short breaks for children, older people previously receiving communicator guide services (aimed at keeping people in their own homes) are having their hours cut and reductions in welfare benefits continue. These are all increasing need while resources are reducing (details are available).

4.2 Fundraising challenges

4.2.1 Since the case of Olive Cooke there has been a reported fall in public trust for charities, with charity fundraising coming under increasing public scrutiny. Although the cases highlighted in the press were concerning, we believe that such behaviours are the exception. There is evidence that Sense’s charitable funds have already fallen as a result and that this is replicated across the sector.

4.2.2 We appreciate that the full implications of leaving the EU are not yet known, but as an indication, in the previous 5 years Sense International has been awarded £1.5m in EU funding. We are not sure what equivalent funds will be available going forward.

4.2.3 Sense has over 90 shops across England, and these are another source of funding for the organisation. However, revenue from this source is also under pressure - there are difficulties in retail nationally and charity shops are no exception.

4.2.4 In addition to raising funds charity shops have a number of other benefits for the community, in terms of volunteer and work experience, providing confidence and enhancing people’s activity. Sense has about 1,100 people volunteering in our shops every week, with 5% of those people being involved because they have been sentenced to Community Service. Because of the donations of unwanted items to our shops 4,000 tonnes of waste is prevented from going to landfill every year.

4.2.5 The 80% mandatory charitable rate relief available to charity shops is therefore extremely important. We estimate that normal business rates would cost half of the income of a typical shop, which would make our trading operation unviable, leading to the loss of more than £1m per annum in charitable funds for Sense. The Government is currently proposing the devolution of all business rates to Local Authorities by 2020. While we understand that charities have ‘special status’ we
wish to note the importance of the continuance of mandatory rate relief and the further loss of income that would bring to the sector if it came to an end.

4.3 **Increased regulation and costs**

4.3.1 One of the major changes in the last few years has been an increase in the number of regulators. In addition to the Charity Commission, Sense is also regulated by CQC (for our registered services), by Ofsted (for our education services to young adults), and by the Fundraising Regulator who has just taken over from the FRSB. Not only are there more regulators but the level of regulation has also changed.

4.3.2 Like other charities, Sense is under pressure to meet a range of different standards across a range of service areas. We recognise that it is early days but we consider the new fundraising regulations to be unclear, with different definitions and currently slightly different rules from overlapping agencies.

4.3.3 Given the above range of financial challenges we believe the sector has done well absorbing increased costs and would wish to ensure increased regulation is both effective and proportionate.

5. **Skills required to lead and manage a charity**

5.1 To ensure sustainability over the long term, charities need to be business-like, setting and managing budgets, business planning, managing risks and trying to extend much-needed services. Given the unpredictable nature of our sector and its funding (short-term contracts and grants and the need to bring in charitable donations), many charities are very adept at managing their funds. We have a long history of being innovative and business-like and Sense is dismayed that our sector seems to have failed in promoting this. We believe the core skills needed to run charities are the same as any other large, complex commercial organisation, in our case one which also has international links.

5.2 At the same time, charity motivations and values are different. We are run for our beneficiaries and deliver services that are often co-designed with the people we support. This fosters creativity and enables people to live their lives as fully as possible.

6. **The role Trustees should play in the performance and effectiveness of a charity**

6.1 Trustees are responsible for the governance of charities and it is extremely important this is done well and that there is sufficient informed and skilled oversight. Whether the charity is large or small, governance is not easy.

6.2 The Trustees of Sense come from a variety of backgrounds, including people with sensory impairments, and those who have relatives in Sense services. This provides a direct link with the people we support. We believe this is of great importance and
ensures that ‘customers’ are at the heart of our governance. A number of other Trustees are experienced business people from various spheres who bring enormous value to the Board. We believe that having a ‘balanced board’ provides the best type of governance for the charity and are concerned that the recent narrative might favour ‘professional Boards’.

6.3 The Trustees of Sense, like the vast majority of other Trustees, are volunteers and are not paid for their time or the level of responsibility which they assume for their organisations. This is an important form of public service.

6.4 We are concerned that the Charity Commission has recently noted (August 2016) that the Commission will look “sympathetically” on requests from charities to pay Trustees. It has long been held that most Trustees in our sector are not paid and given there are one million unpaid Trustees (Charity Commission figures) currently, this is entirely in line with a Civil Society agenda and active citizenship and is an unrecognised resource. Sense has no difficulty in attracting highly professional people, many wishing to ‘give something back’. We are dismayed that some regulators have chosen to pay their Board members (passing on those costs to the charities themselves) and would welcome our ‘Guardians’ ‘leading from the front’.

6.5 In larger charities the board has ultimate responsibility for the organisation but it cannot run it on a day to day basis. It is usual for there to be structured delegation from Trustees to skilled and experienced employees who can run the organisation. However there are signs that some regulators are now asking for more in-depth involvement. Ofsted for example are now requiring that for schemes involving childcare, a trustee should be the ‘registered person’ and legally responsible for complying with the regulations.

6.6 By taking this approach the boundary between governance and management is blurred. It may also have a major impact on the willingness of people to become Trustees because of the greater direct responsibility Trustees are increasingly asked to assume. This is a real move away from the traditional governance and management roles and we are not convinced this is the best way forward.

6.7 We note elsewhere that the approach of the Charity Commission of ‘promoting compliance by charity Trustees with their legal obligations’ is different to the approach previously taken and that their function of encouraging voluntary participation is also very important in their relationship with Trustees.

7. The role of national and local Government with the charitable sector

7.1 Charities can and do work with Local Authorities in a number of ways. The key area is through direct contracted services. Pressures on social care resources are impacting on our ability to deliver services.
7.2 Social enterprise, regeneration, employment, prevention and healthy living initiatives can be delivered in partnership. For example Sense is working with Sports England to deliver active/healthy lifestyles to vulnerable people. Sense is also working with the Department of Business and Innovation to support local community regeneration through the Regional Growth Fund.

7.3 Charities have an important role in a vibrant civil society, motivated by the desire to achieve social goals for beneficiaries, and build social capital. We believe charities are uniquely placed to innovate and develop solutions based on their closeness to and understanding of the needs of their beneficiaries.

7.4 We feel that government can do more to articulate and champion the role of the sector in building stronger communities. We hope that government will continue to support the role of the sector in influencing and informing policy.

8. The role of the Charity Commission

8.1 While we welcome much of the Charity Commission’s CC20 guidance concerning the role of Trustees in fundraising, we would like to note that in the last three years the role of the Charity Commission and the way in which it undertakes its regulation of charities has changed. Its role as a regulator has been strengthened in response to concerns about a small number of charities. We are also aware that the funding of the Commission has been reduced.

8.2 The approach of the Charity Commission of ‘promoting compliance by charity Trustees with their legal obligations’ is different to the approach previously taken. It is important that the sector has a rigorous regulator which sets out to ‘Protect public trust and confidence in charities’ however we would suggest that the duty of ‘encouragement of voluntary participation in charity work’ set out in section 16 of the Charities Act 2011 is also important. To some extent this is a matter of tone (and we note in passing that the approach taken by the Office of the Scottish Charity Regulator is different, as evidenced for example, by the guidance to charities about the recent EU Referendum and thereafter fundraising concerns). We recognise this is a difficult balance but we question whether the current balance is right.

8.3 We feel that there is a growing perception within the sector that the Charity Commission appears to be increasingly critical of its ‘own sector’. We believe that the Commission could do more to fulfil an important ambassadorial role for Charities, by highlighting their positive contribution and how essential they are to their beneficiaries and civil society in general.

9. Charities’ accountability to their beneficiaries, their donors, and the general public

9.1 Charities have a very real accountability to their donors and have great responsibilities to their beneficiaries, many of whom are vulnerable.
9.2 As noted in the introduction Sense, like a number of other charities, was set up by beneficiaries and they are at the heart of all we do. We have been dismayed by the reports in the media which have portrayed charities behaving with apparently little or no respect or accountability to donors. Clearly, maintaining public trust and confidence in the charity sector is crucial. Charities have privileges in terms of tax and a moral responsibility. Our responsibility to the public therefore is not just about our charity, but the sector as a whole and we should be doing more to explain our work to a wider audience.

10. **The effective delivery of services**

10.1 We note above the diversity of the services which we provide and that some of the most important pressures on us are increasing lack of public sector funding combined with a reduction in charitable funds. We have skilled and committed staff and ‘corporate knowledge’ built up over many years.

10.2 We tailor unique support packages built on individual choice, which enable individuals to meet their desired outcomes, including recreational and educational opportunities through their own unique Person Centred Plan.

10.3 Despite all the pressures, Sense continues to deliver a complex range of services to over 2,000 people. A consultant cardiac surgeon said ‘I could improve my outcomes/targets if I stopped doing complex surgery’. We believe it’s important to recognise the challenges of service delivery to people with complex needs. If it was easy we wouldn’t be here.

11. **The current challenges to the financial sustainability of charities**

We have dealt with these earlier.

12. **Innovation, particularly in the digital arena**

12.1 Innovation, whether digitally or in other ways, demands resources; financial, skills, time and energy. It is not easy to do this in the current climate.

12.2 Despite these financial pressures Sense is investing £14m in a TouchBase model for people with disabilities and the local community. The capital investment is a partnership of Sense, Trusts/Grants, corporate and fundraising. The on-going revenue is based on social care funding, grants and social enterprise. We believe this innovative model adds value financially but also brings people with disabilities and the local community together in a number of ways. TouchBase models offer an added value and sustainable contribution to the challenges of social care (details are available).
The continuing technological revolution has made life easier for people with sensory impairments, through computer aids and adaptations and the ability to make text larger on tablets and specially designed readers. We work with other charities on a Big Lottery funded project which gives people with multi-sensory impairments the same access to new technology as other people.

We also use a variety of technology to support individuals to be more independent and to use staffing more effectively. This can range from very simple applications like electronic flashing door bells, to full environmental controls that can do everything from turning lights on and closing the curtains, but also notify staff when for example someone has got out of bed during the night.

There is more that could be done in this area if we could generate further investment. However we would also add a word of caution, as people with complex needs will still need ‘human support’.

12.3 12.4 12.5

13. Conclusion

This response provides Sense’s view and perspectives on a number of the issues currently affecting charities. Sense Trustees and senior staff are pleased to have been given the opportunity to give our views and very much hope that this submission will be useful to the Select Committee. We hope that we are right to be confident that we still have ‘listening politicians’.

1 September 2016
Written evidence to The Lords Select Committee on Charities submitted by Alex Fox, Independent Chair of the Joint review of partnerships and investment in voluntary, community and social enterprise organisations in the health and care sector.

1. Summary

This evidence draws on the Final report of the Joint review of partnerships and investment in voluntary, community and social enterprise organisations in the health and care sector. The report contained a vision and recommendations produced in partnership by representatives of the VCSE sector and the Department of Health, NHS England, and Public Health England. I continue to Chair the Review as it moves into its implementation phase during the Autumn, subject to the approval of the new Minister.

The final report argues in its vision that:

- The government and NHS’s vision for a health and care system based more within and drawing more upon community is the right one, but there is a widening gap between the vision and the reality of local health and care systems, which are retrenching under financial pressure in many areas. The VCSE sector is falling through this gap at a time when its work is most needed and this is particularly affecting equalities and BME organisations.

- We need a delivery shift: the VCSE sector will often be the provider of choice for care and health services which are long term, preventative, whole-person or whole-family and which address the social determinants of health and wellbeing. Investment and contracting approaches should be structured accordingly.

- We need a design shift: the VCSE sector should also be valued as a partner in designing health and care systems, because VCSE organisations are often the only way to reach and engage people who use health and care services the all local communities, and it is vital that those people are involved in re-designing services.

- These two changes would bridge the gap between vision and reality, because citizens, working with and through community organisations, are best placed to shift the focus onto long term, holistic wellbeing goals. If the system genuinely reframes itself around wellbeing, the case makes itself for investing in good VCSE organisations to deliver wellbeing outcomes.

The recommendations identified a wide range of levers including:

- Adopting the concept of wellbeing as set out in the Care Act as the unifying principle and producing the outcome measures and commissioning tools required to commission for it.

- Making greater use of the Social Value Act, particularly within NHS commissioning.
- Creating a full picture of each area’s assets, including VCSE organisations, as part of the current strategic needs assessment process.
- Making strategic use of the full range of funding processes, including contracts, grants, personal budgets, social prescribing and social investment, on a ‘simplest by default’ basis and ensuring processes were proportionate.
- Building and modernising local VCSE infrastructure organisations, upon which many of the smallest and most fragile charities and community groups rely.

2. About the Joint Review of the VCSE sector

In November 2014, the Department of Health, Public Health England, and NHS England initiated a review of the role of the VCSE sector in improving health, wellbeing and care outcomes. The purpose of the review was to:

- Describe the role of the VCSE sector in contributing to improving health, well-being and care outcomes
- Identify and describe challenges and opportunities to realising the potential of the sector to contribute to these outcomes
- Consult on options for policy and practice changes to address challenges and maximise opportunities, then develop final recommendations.

It had two elements:

- A review of wider funding and partnerships between health and care agencies and the VCSE sector across England which would focus on three areas: defining, achieving, and demonstrating impact; building capacity and staying sustainable; promoting equality and addressing health inequalities

- A review of their Voluntary Sector Investment Programme: The Strategic Partnership Programme; The Innovation, Excellence and Strategic Development Fund; The Health and Social Care Volunteering Fund.

The review was produced in partnership through an advisory group of system partners (Department of Health, NHS England, and Public Health England) and voluntary sector representatives working together in an open process, chaired by Alex Fox, CEO of Shared Lives Plus. Following an initial consultation in early 2015, the advisory group published an interim report in March 2015. The findings of this report informed a more comprehensive consultation process which ran from August to November 2015.

The review is now moving into its implementation phase.

3. Evidence on sustainability

The health and care sector is one of the biggest areas of VCSE activity, so the sustainability and cost-effectiveness of VCSE work in this sector is crucial to the wider sustainability of the voluntary sector as a whole.
In its vision, the final report draws on more evidence given in greater detail within the body of the report, to summarise:

“We did not find the VCSE sector consistently at its best. We found many organisations lacking confidence, some lacking hope and most torn between following missions which were born from their communities and meeting the demands of contracts and grants which were defined elsewhere and which in many cases are becoming shorter term, more narrowly focused and more medicalised.

Partly this was the impact of austerity. There is significant and often invisible churn in the sector. In many places the sector is shrinking. But we heard that these impacts are unevenly distributed, with some kinds of VCSE organisation, including equalities and local infrastructure groups, facing an imminent crisis in many areas. Local systems need these kinds of organisations to reach individuals and groups living in potentially vulnerable or marginalised circumstances, support the innovation of new social enterprises, and benefit from the smallest community groups which are the glue keeping our communities together.

Conversely, some local systems have recognised that their VCSE resources are now more important than ever and are embedding the sector into their planning and resource management. Money is not the only resource available to good VCSE organisations and the sector has proved itself time and again to be able to achieve incredible outcomes with fewer resources. Perhaps even more important than the level of funding in the system, was the extent to which VCSE organisations are fully included in local planning, goal setting and risk management.

It is hard to see a future for many VCSE organisations and statutory services alike, if VCSE organisations remain seen as outsiders in a statutory-based system. VCSE organisations can share the risks and responsibilities of local systems but in turn need to be able to share in the resources and rewards. They can bring the voices decision makers most need to hear into the system, but in turn those voices must be listened to and acted upon, even when – especially when – they are not saying what decision makers might most like to hear. All systems need the VCSE sector in their decision-making structures, but an immediate challenge is to embed our most effective, confident and community-rooted VCSE organisations into the new models of care such as the vanguard sites, Integrated Personal Commissioning programme, Integrated Care Pioneers programme and devolution of health budgets to Greater Manchester and elsewhere. This will support integration, because effective and well-networked VCSE organisations join up responses that have previously been fractured and build relationships between public services and communities.

The new structures being developed through the new models of care vanguards and via Sustainability and Transformation Plans as set out in the latest NHS planning guidance are creating new bodies with both commissioning and provision roles. The VCSE must be central to these new collaborative processes, as well as existing JSNAs and health and wellbeing boards.
Parts of the VCSE sector have been challenged to scale up and to ‘professionalise’. They are now delivering large scale service contracts for some of the most vulnerable people in public service systems. There is only benefit in this happening where VCSE organisations can remain rooted in their communities and continue to deliver added ‘social value’, through recruiting people with lived experience or from overlooked communities as volunteers and paid staff, for instance. Professional VCSE organisations can respond to crises, deliver technical or medical care and manage challenging risks, but great VCSE organisations do not wait for crises; they think socially not medically; and they never let a clear view of risk obscure people’s potential. It would be an own goal to encourage all of our most successful VCSE organisations to become indistinguishable from statutory and private sector organisations.

Large VCSE service delivery organisations need to rise to the challenge of demonstrating the outcomes which their competitors can also demonstrate, whilst also demonstrating added social value. In turn, they need to be offered a level playing field, where the wellbeing outcomes at which they excel are recognised, valued and contracted for. Again this happens only where citizens and the groups who work directly with them have been fully involved in defining local goals and judging their achievement.

Neither ad hoc grant giving, nor contract-based procurement, appear to create a diverse, creative and sustainable VCSE sector.

Traditional contract-based commissioning can work for some large-scale VCSE provision and we saw potential in more collaborative approaches to contracting. But these do not appear to be the best way to support community development nor to build social action, and we have heard about the need for a more considered range of funding approaches to be used in every area. This should include use of co-designed, transparent grants programmes as well as personal budgets and personal health budgets, which can allow individuals and small groups to take real responsibility for shaping their care, with consistently better outcomes for people with long term conditions and their family carers. Targeted support for the very smallest social enterprises and community groups can play a large part in creating health and wellbeing, as fewer people will be left unsupported where there is a wide range of community-based and innovative interventions from which to choose.

We believe much more use could be made of the Social Value Act to level the playing field for organisations with a social mission and to create more value from public spending. We see real potential in those social prescribing models in which resources follow the prescriptions, enabling and encouraging effective VCSE organisations to sustain and grow interventions which patients and their GPs most value. Social investment has enabled some kinds of VCSE organisation to manage the risks of innovation and we see potential for it to unlock further innovation during austerity.”

4. Recommendations

Most of the review’s 28 recommendations are relevant to the question of sustainability and effective resourcing:
Health and care services are co-produced, focussed on wellbeing, and value individuals’ and communities’ capacities

1. Promoting wellbeing is already central to the goals of the health and care system, in line with the Five Year Forward View and the Care Act. The Department of Health, NHS England and Public Health England should explore opportunities to further embed this goal, including identifying, measuring and commissioning for key wellbeing outcomes for all.

2. There should be greater co-production with people who use services and their families at every level of the health and care system. NHS England should update its guidance on Sustainability and Transformation Plans (STPs) to require local health and care systems to draw upon the six principles created to support the delivery of the Five Year Forward View, the principles contained in the Engaging and Empowering Communities memorandum of understanding, and Think Local Act Personal’s definition of co-production.

3. NHS England should issue revised statutory Transforming Participation in Health and Care guidance in 2016 on working with the VCSE sector as a key way to meet CCGs’ Health and Social Care Act duty to involve.

4. When preparing their joint strategic needs assessment (JSNA), Health and Wellbeing Boards should ensure that it is a comprehensive assessment of assets as well as needs based on thorough engagement with local VCSE organisations and all groups experiencing health inequalities. The Department of Health should consider including this when next updating the Statutory Guidance on Joint Strategic Needs Assessments and Joint Health and Wellbeing Strategies.

CASE STUDY: Bexley Voluntary Service Council has been involved in the local multi-agency JSNA Steering group as well as a number of engagement events, one specifically aimed at the VCS. With the support of statutory partners, they have established an on-going process for the VCSE sector to contribute to local data, needs assessment and priority setting. They are currently exploring a more asset based approach to seek to understand community resources and capacity alongside more formal delivery of public services.

7. Health and Wellbeing Boards should work closely with local VCSE organisations to ensure that their strategies are co-designed with local citizens, particularly as they try to reach those groups and communities which may be under-represented or overlooked. Local and national government should consider how to support and facilitate HWBs to achieve this goal.

Social value becomes a fundamental part of health and care commissioning, service provision and regulation

8. Social value should be better embedded in the commissioning approaches of local authorities and NHS commissioners. The NHS Sustainable Development Unit and Cabinet office should explore the benefits of using social value within the NHS and how to identify and incentivise its creation through their regulatory frameworks and good practice models, building an evidence base to address the gaps identified by Lord Young’s review of the
Public Services (Social Value) Act, which should inform a further review by 2018. NHS England and the Cabinet Office should work in partnership to ensure that training and resources provided to NHS and local authority commissioner and procurement teams support and encourage them to commission for social value.

9. CQC should review its Key Lines of Enquiry and ratings characteristics across all sectors to include the value of personalisation, social action and the use of volunteers, based on the evidence of their efficacy in achieving improved quality of care.

Social prescribing is given greater support

10. We recommend that NHS England, working with key partners such as the Department of Health and NICE, should publish good practice guidance on social prescribing which includes advice on different models and recognition that prescriptions should be appropriately and sustainably funded. NHS England should promote this guidance, provide implementation support to health commissioners and evaluate uptake and impact on outcomes, including for those people experiencing inequalities.

The skills of those involved in health and care commissioning are improved

11. Government should consider how they can support and encourage health and care commissioning bodies to access skills development training for their workforces, including from the Commissioning Academy, particularly on the co-commissioning of services.

CASE STUDY: St Helena Hospice has entered into a joint commissioning agreement with North East Essex CCG for end of life care services. The agreement recognises the hospice as a lead provider and significant funder of these services in the community. The relationship aims to utilise the social value benefits of a joint NHS and VCSE-led approach to planning for, and meeting, the increasing demand for non-acute palliative and end of life care services.

The benefits of this innovative approach include: improved patient experience; significant cost savings per annum; the delivery of the local End of Life Care strategy; and it has enabled a key contribution to the local Keogh Action Plans. For example: more people being cared for, and dying, in their place of choice; the phased reduction in unmet need in the community; and greater patient choice and person-centred care

12. The Cabinet Office and the Department of Health should consider providing support to build the capacity of VCSE organisations to compete for and win health and care contracts, particularly where infrastructure is limited, and coordinate this support with the Commissioning Academy and the commissioning plans of local health and care systems.

Long term funding as standard

13. Moving away from short-term pilot funding, NHS commissioners, local authorities, charitable funders and National Lottery distributors should provide core and long term funding with capacity building support, particularly to smaller and/ or specialist VCSE organisations.

Health and care bodies fund on a simplest-by-default basis
14. Health and care commissioners should, by default, use the simplest possible funding mechanism (that which best balances impact and transaction costs). The Department of Health, with support from NHS England and the Cabinet Office, should continue to develop shorter model contracts and grant agreements, and consider commissioning research on the transaction costs and relative impact of different funding mechanisms for a variety of services and circumstances. This should include but not be limited to grants, fee for service contracts, payment by results contracts, social impact bonds, social prescribing models, personal budgets and personal health budgets.

CASE STUDY: In Hull the CCG and local authority jointly commissioned a piece of research mapping the total statutory funding and investment in the local VCSE sector, including contracts, grants and service-level agreements. This identified that combining a number of existing small grants programmes would reduce duplication and enable more targeted and impactful grant giving. It also highlighted the need to develop a common approach to social value measures across the public sector in partnership with local VCSEs.

Greater transparency

15. Government should consider fully implementing the Open Contracting Partnership’s Global Principles and Data Standard, and introducing a public contracting disclosure baseline, so that full details of contracts, including awards, amendments, termination and financial flows to subcontractors are available through the Contracts Finder website.

16. The Department of Health should consider commissioning NICE to develop an indicator of VCSE engagement for NHS and other public health and social care commissioners.

Volunteering is valued, improved and promoted

17. All NHS settings, with strategic leadership from NHS England through the Active Communities and Health as a Social Movement programmes, should develop more high-quality, inclusive opportunities for volunteering, particularly for young people and those from disadvantaged communities. All NHS settings, not just trusts, should also comply with the second and third recommendations made by the Lampard Review on volunteer recruitment, training, management and supervision. This should include consideration of whether to apply for accreditation under the Investing in Volunteers scheme.

Evidence underpins health and care

19. Service objectives should be developed in partnership with funded organisations and service users and include a focus on the health, wellbeing and experience of service users. Standard tools to support credible outcome measurement should be adopted. Providers should be supported to effectively undertake evaluations, measurement of social value and cost-benefit analysis of savings. For NHS commissioners, this may include giving providers full access to anonymised patient data in order to aid impact assessment.

20. Government should consider funding the What Works Centre for Wellbeing to set up a wellbeing data lab service for all sectors. This could be modelled on the existing Justice Data Lab.
22. The National Institute for Health Research (NIHR) should use existing research to identify and develop tools to help measure preventative outcomes, using suitable proxies as necessary and having regard to what works for different communities.

23. VCSE organisations should engage further with the evidence base, contributing to and drawing on resources such as the What Works Centre for Wellbeing, Social Care Institute for Excellence, Think Local Act Personal and guidance on 'Community-centred approaches for health and wellbeing' developed by Public Health England. Strategic partners and national infrastructure bodies should promote greater engagement with this evidence base.

**A sustainable and responsive infrastructure**

24. Government, local infrastructure and independent funders should consider the recommendations set out in Change for Good and subsequent work from the Independent Commission on the Future of Local Infrastructure.

25. NHS commissioners and local authorities should consider providing funding and guidance for suitable infrastructure to better connect personal budget and personal health budget holders with a range of providers, including small and start-up organisations, and facilitate the development of a more diverse range of services accessible by and co-designed with local communities.

**A greater focus on equality and health inequalities**

26. The VCSE sector plays a vital role in amplifying the voices of people from communities whose voices are seldom heard, helping them to engage with the health and care system. NHS commissioners and local authorities should work with the VCSE sector to enable all groups in society, especially those experiencing health inequalities, to have a say in how services can achieve better health and care outcomes for all citizens. Commissioners should be encouraged and supported to make better use of guidance, tools and resources to improve local people’s access to services, experiences and outcomes by promoting equality and reducing health inequalities.

**Market diversity**

27. Government should consider extending the market diversity duty, which currently applies to local authorities, to NHS commissioners.

*CASE STUDY: Harrow Council developed the online social care market place shop4support three years ago. This offers choice and control over the services that individuals receive. Harrow developed My Community ePurse to enable a shift from commissioning to easy, direct purchasing between an individual and provider. Harrow now has the highest percentage of cash personal budgets in the country*

05 August 2016
Sheila McKechnie Foundation (SMK) — Written evidence (CHA0184)

Sheila McKechnie Foundation (SMK) — Written evidence (CHA0184)

About SMK

Legendary campaigner, Sheila McKechnie, believed in the importance of people being able to shape their world. This is the founding principle of SMK today.

We are in the business of helping people and organisations effect positive and lasting social change – whether in their local community or right across the globe.

We teach and support all these campaigners, from those who are just starting out to experienced campaigners in large organisations.

We bring the campaign community together to share new ideas, knowledge and resources, helping people and organisations campaign more effectively and efficiently, build confidence, nurture talent and accelerate impact.

And we work to champion and celebrate campaigning, demonstrating its’ value and acknowledging success.

Because, ultimately, we believe people being able to shape their world makes society fairer, safer and more vibrant. And we know Sheila would have agreed.

Summary of our response

Since 2005 SMK has supported thousands of charities and voluntary sector organisations to campaign effectively. Our definition of campaigning includes influencing policy, amending laws, changing behaviour and mobilising others. We are an independent charity and do not support specific campaigns. To write this response we have drawn on our experience and analysed the results of our first ever Campaigners Survey. The full results of the survey will be released on 1 December. As a charity involved in supporting the campaign community our response focuses on the role of charities in campaigning, influencing and advocating within the scope of the questions set by the Committee. Our evidence states that:

- One of the key purposes of a charity is to speak out on behalf of groups and causes that need a voice.
- This is a worrying and challenging time for charity campaigning, driven partly by Government and Charity Commission policy, but negative media coverage of charity activities and anxieties/ risk aversion from trustees and senior managers also contribute.
- Innovation produces opportunities for campaigning charities, but there needs to be more investment in research that examines how charities can best create social change.
- Campaigning is a key skill for individuals leading and managing charities, but experience of generating income and running large scale operations are now prioritised due to the current funding and operating environment.
- Trustees need support to understand how and why charities should campaign.
• Measuring and demonstrating campaigning effectiveness is a key part of charities being fully accountable to donors and funders.
• Government at all levels should not seek to prevent legitimate campaigning activities.
• The Charity Commission could improve its approach to charity campaigning (and wider approach to consultation with the charity sector) and align itself more with the Office of the Scottish Charity Regulator.

**The purpose of charities**

1. Charities play a vital role in England and Wales, raising awareness of social issues, providing support to individuals and communities and championing causes. History shows that charities have been at the forefront of many of the most significant changes that we have seen. Some examples of how charities have pushed for changes are the Living Wage Campaign (led by Citizens UK), establishing Child Benefit (Child Poverty Action Group) and legislation on wearing seatbelts (led by the Royal Society for the Prevention of Accidents).

2. Charities also provide policy makers with crucial feedback and evidence on the impact of policies leading to better policy making and have played a key role in creating social consensus on often complex social issues.

3. At SMK we believe that charities play a very specific role in a healthy democracy. They speak truth to power on many of our most intractable issues and speak out on behalf of groups and causes which need a voice. The role of charities in this area is incredibly important at a time of ‘democratic deficit’ where trust in traditional democratic institutions is low and falling.

4. Charities are distinct from many other institutions, they remain high on the list of trusted sources of information according to research from NFP Synergy. They are more trusted by the public than the Government, media and multinational companies.

5. In recent years the important advocacy and campaigning role of charities has been seriously challenged and the legitimate role of charities campaigning has been called into question. In Summer 2016 SMK conducted a survey of 100 campaigners to take their views on the current situation. Worryingly over 90% said that “there are threats to campaigning by charities and the wider Voluntary sector”. The top five reasons for the threats were:

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<th>Reason</th>
<th>Percentage</th>
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<tr>
<td>Negative media coverage of the work of the VCSE sector</td>
<td>65%</td>
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<tr>
<td>Conditions of funding discouraging campaigning</td>
<td>63%</td>
</tr>
<tr>
<td>Senior managers and trustees being more cautious about campaigning</td>
<td>53%</td>
</tr>
<tr>
<td>Guidance from the Charity Commission of England and Wales</td>
<td>52%</td>
</tr>
<tr>
<td>Campaigning has become seen as too risky or something that VCSE organisations should not be involved in.</td>
<td>52%</td>
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6. Overcoming these challenges will take action from all sectors. We believe that the charity sector needs to rebuild public trust and part of this is getting better at “telling its story” to the public and media.
7. We also believe that many charities may need to rethink how they seek to achieve change. Traditional processes of lobbying decision makers, showing support through petitions and letter writing and ‘myth busting’ are increasingly ineffective at creating long term change. SMK is seeking funding for a programme of work to fully understand how social change in the UK happens to help better inform the various actors in charity campaigning.

8. For central Government we believe that this current Government needs to make strong public statements in support of the vital role that charities play in advocating and campaigning. A positive first step would be to not press ahead with plans to stop grantees from using Government funding to campaign about policy changes that affect sections of society who are not able or willing to speak truth to power themselves.

9. For local Government, anecdotally campaigners that we support tell us that a number of local authority contracts and grants contain clauses preventing charities from speaking out publicly against the local authority. We believe these clauses prevent charities from holding local authorities to account on behalf of people that do not have the ability to do so.

10. For the Charity Commission, we believe that the Commission’s recent guidance on campaigning during the EU referendum was above and beyond the sensible and proportionate guidance in the Commission’s long standing guidance on charity campaigning, CC9. As our survey shows this has led to confusion and a lack of clarity, which may have led to charities self-censoring their campaigning due to risk aversion. The Commission should restate publicly that charities can campaign where the activity fulfils the charities purposes and governing document. It should also consult widely and properly with charities before taking any decision to review CC9.

Pressures and opportunities.

11. Despite our belief that charity campaigning is being severely challenged, we also see opportunities in the current environment. Charities, particularly smaller ones, remain highly trusted by the public. There is an opportunity to build on this and for charities to do more to advocate on behalf of others. We also believe that technology, particularly social media, gives charities new opportunities to raise awareness of issues and mobilise supporters. In our survey 86% of respondents said that they believed that charities will need to do more campaigning in the next 12 months.

12. In our survey we also asked individuals to tell us what impact the current environment has had on their organisations.

<table>
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<tr>
<th>Impact</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Made it harder to get funding for our campaigns</td>
<td>36%</td>
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<tr>
<td>Made your Board more cautious about campaigning</td>
<td>35%</td>
</tr>
<tr>
<td>Made your senior management team more cautious about campaigning</td>
<td>31%</td>
</tr>
<tr>
<td>Made it harder to gain support from local or national politicians</td>
<td>30%</td>
</tr>
<tr>
<td>Made it harder to gain support for campaigns from our members/supporters/volunteers</td>
<td>23%</td>
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13. The funding challenge is compounded by a reduction in overall funding for charities as reported by others, including Lloyds Bank Foundation and NCVO. This has reduced the resources for charities to campaign. The drive to contracts rather than grants has also meant that many charities have fewer resources to devote to activities that are not direct service delivery activities.

**Governance and leadership**

14. The ability to influence, advocate and campaign are key skills for leading and managing charities. However, perhaps understandably, in the current funding and operating environment other skills are now more highly prized, such as fundraising and large operational management. There is very little support to charity leaders to develop in this area, we hope to address this through new products to support senior leaders in charities understand how to campaign effectively.

15. The role of trustees in supporting campaigning is incredibly important. Our survey shows that the current environment has made trustees less likely to support campaigning activity, this may be driven by fears of what is legally permissible and SMK is holding an event with Bindmans LLP and Monckton Chambers to break down some of those fears by better informing trustees and senior decision makers of the legal limits to campaigning.

16. We believe that another way of reassuring trustees would be for the Charity Commission to make a clear statement that CC9 remains the framework for charity campaigning and to not issue guidance that contradicts some of key principles of CC9 as they appeared to do during the EU Referendum.

**Accountability**

17. We believe that an important way for charities to ensure that they are properly accountable is by evaluating the effectiveness of their activities, including campaigning and influencing. Campaigning activities are often less tangible than direct service delivery and SMK is planning to develop products to support charities and others to be able to measure their effectiveness.

**Resource management**

18. As highlighted in paragraph 11, the charity sector faces significant resourcing issues due to reductions in available funding, between 2010 - 2015 the slogan was delivering “more for less”, from 2015 onwards the slogan appears to be deliver “more for nothing”. There are also fears that the economic impacts that may be felt when the UK leaves the European Union will lead to an even bigger reduction in funding. Charity campaigning activity can be one of the first areas to be cut in times of resource constraints.

**The role of Government.**

19. As we state above we do not believe that the current challenges to charity campaigning have been solely caused by the government, but Government has played a significant role in
creating it. Elements of central Government seem to be philosophically opposed to charities campaigning. We would like to see a more measured approach, one that emphasises collaboration rather than opposition and creates a ‘healthy’ tension between the Government and Charities

20. For Local Government, we wish to see a halt to contracts and grant agreements that restrict the rights of recipients to campaign against decisions made by Local Authorities. We would also like to see many parts of Local Government improve how they consult on key decisions, appropriate consultation would reduce the need for charities to campaign in the first place. The Government’s Compact established some key principles for consultation which serve as excellent practice, but are not being followed.

21. For Central Government, we wish to see the current Government be better able to distinguish between opposition to Government policy and opposition to the Government. A “them and us” situation has developed between many charities and Government. This is a very different relationship to the one with previous Governments, where charities were regularly consulted about major policy. A key way to redress the situation would be for the Government to quickly accept and implement Lord Hodgson’s recommendations to reform parts of the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014. Another positive step would be for the Government to withdraw its plans to restrict organisations receiving public funds from using those funds for advocacy activities.

22. For the Charity Commission, the Commission’s approach to regulation is an important part of restoring some of the lost trust in charities. However, we believe that the Charity Commission needs to improve the way it consults with charities on policies. Instead of informal consultations with a handful of sector organisations, such as NCVO and ACEVO, the Commission should have a standing group of a wide range of charities that can quickly comment on proposals and policies and provide advice and challenge.

Lessons from other sectors and countries.

23. Our lessons from other countries relate to the Charity Commission. It is striking that the Office for the Scottish Charity Regulator (OSCR) guidance to charities on campaigning during the EU referendum and the referendum on Scottish Independence endorsed the ability of charities to campaign provided this was supported by a clear link to the purposes of the charity. The tone of the guidance was also very different to that of the Charity Commission and OSCR’s approach was supported by charities in Scotland. In general it appears that the OSCR approach to charity campaigning is more proportionate than the Charity Commission in England and Wales.

21 November 2016
SkillShare North East Ltd — Written evidence (CHA0106)

Summary

1. SkillShare North East Ltd is a Hartlepool based social enterprise formed in 1990 by local voluntary and community groups to design, develop and deliver VCS training and to provide a strategic voice for VCS skills. SkillShare exists to ‘develop the knowledge, skills and confidence of people to achieve a strong and fair society and to strengthen the North East Voluntary and Community Sector by sharing skills, knowledge and experience’.

2. Since 2006 SkillShare has been working towards the design and delivery of VCS specific qualifications to create a progression route in VCS Management, Leadership and Governance at levels 2, 3 and 5. With specific regard to skills for governance, learners could access a range of publications, some support from local infrastructure organisations, including SkillShare, in the form of ‘one off’ training sessions or one to one advice but this could be ad hoc depending on area priorities and available resources. In recent years, this problem has been further exacerbated by the decline of infrastructure services. There was however no recognised accredited programme that existed specifically to address the skills needs for VCS governance.

3. In October 2012 SkillShare piloted a new qualification – the NOCN Level 2 Award in Governance in the Voluntary and Community Sector (QCF) – underpinned by the Trustee and Management Committee National Occupational Standards and the Code of Good Governance. This was further supported by a North East Good Governance Conference, also organised and delivered by SkillShare, with input from partners across the Country.

4. As the first pilot of the qualification anywhere in the Country, SkillShare was keen to investigate the impact of this learning on developing the skills and knowledge necessary for Good Governance of the Voluntary and Community Sector. Our submission of written evidence to the Select Committee draws on the lessons learnt from this pilot and links to wider work and research carried out by SkillShare. Our response seeks to address the questions raised in Question 4 (Governance and Leadership) of the Call for Evidence.

5. Additionally, we have attached 3 supporting documents which provide the full body of research from which this response draws [held by Committee staff and available on request].

What skills are required to lead and manage a charity?

6. Based on the feedback of learners from unaccredited training programmes and the Governance Conference tutors were able to distinguish a core of learning needs shared by learners which included basic responsibilities and rights of governing members, understanding primary duty, skill and care, managing risk, safeguarding property, investment, conflicts of interest, legal models of VCS and social enterprise, statutory duties, policies and procedures, planning, managing staff and volunteers.
and managing finance.

7. The NOCN Level 2 Award in Governance in the VCS provided a framework for modelling these topics into an accredited programme and these were the basis for the course sessions. In addition to this core programme there were repeated requests from learners for many other relevant topics. In some cases these could be adapted into the programme where they were required by the majority of learners and time was available. Ideally an additional list of topics would be provided as optional sessions where resources allow. Key additional topics identified were employment law, collaborative working, contracting and procurement, asset transfer, social investment, enterprise skills and increasing and diversifying income.

8. Following on from pilot programme of the Level 2 Governance in the VCS programme, feedback from learners indicated a desire to progress to higher education. Again, at the lack of a suitable qualification SkillShare worked this time with New College Durham to design and deliver the first College accredited Foundation Degree in the country and the first VCS Foundation Degree in the North East for the Voluntary and Community Sector. It was developed in consultation with SkillShare’s VCS learners and the wider charitable sector in the north east region.

9. In December 2013, 19 learners from the Voluntary and Community Sector in the North East of England graduated from this two year study programme. The programme offers a brand new route into higher education for the third sector.

10. Like any other employer, the Third Sector needs a highly skilled workforce if the business is to grow and develop. Research identified that higher level qualifications specific to their business needs are important for a number of reasons including succession planning, encouraging responsiveness and resilience, leading organisations through change, driving forward social enterprise, developing new services and supporting individual growth.

How can these skills be gained?

11. As expected, there is no ‘one size fits all’ solution to tackling the skills gap that exists for governance, management and leadership skills within the charitable sector. The research does however identify a framework of learning, underpinned by the Trustee and Management Committee National Occupational Standards and the Code of Good Governance, with clear progression routes that can be accessed as required by individuals or employed as a model for a skills development plan within the organisation. Evidence from SkillShare research suggests a four part approach of continuous training:

a. Governance Events and Awareness Sessions that aim to provide basic information on key areas in a relatively short time scale can increase peoples understanding of good governance and offer the opportunity to share good
b. **Accredited Governance Training** that aims to embed the skills of good governance in individuals although research demonstrates that the impact on organisations is greater when groups learn together. Award of the qualification could potentially be recognised by funders and other stakeholders as evidence of competence of the members of an organisation to act within an agreed qualitative framework of good governance and provide assurances of the individuals’ understanding and knowledge.

c. **Short Information Sessions** that provide information and understanding of a range of specialist topics such as employment law, equality etc.

d. **Higher Education Opportunities** offering a clear progression into higher education for learners.

12. There are three key points from the research in relation to the framework:

a. **There is an appetite in the Sector for Progression** - only four students joining the Foundation Degree Programme already held a degree or qualification above level 4 and despite open recruitment seventeen of the 21 learners joining the course had progressed through unaccredited and Level 2 and 3 qualifications with SkillShare. What this demonstrates is that access to higher education is underpinned by a series of unaccredited and shorter accredited programmes that gradually build confidence and ignite the desire to learn. If we are to widen participation in education it is essential that we have a clearly defined route which builds on previous learning and inspires learners to achieve more. A progression route for the VCS is vital for the development of the sector as a whole but equally increases the self-confidence of learners to reach their potential and be better informed to serve their organisations. Between June 2012 and May 2013 28% of SkillShare’s learners completing VCS learning programmes progressed to a higher qualification within 3 months of completing a first course.

b. **Governance training requires investment** – it has become harder to source free or low cost training and while groups prefer to pay for training directly linked to service delivery evidence demonstrated that they would contribute to good quality and relevant training for governance skills. Research in the north east suggests however that only around 22% of groups has a training budget. In recent years infrastructure organisations like SkillShare which typically support groups in skills development are facing cuts to their own budgets and are less able to offer low cost and free training. Some of this could be addressed by some Skills Funding Agency resources that are geared to supporting community activity and volunteering.

c. **Governance Training is relevant regardless of prior educational attainment or experience** - half of the Pilot Programme learners had no prior experience
in the sector while the other half classified themselves across a range of ‘little experience’ to ‘very experienced’. No matter how learners were broken down or categorised there were no discernable variations on their experience of the course. It was apparent that the training had been beneficial to all participants regardless of their prior learning, experience in the sector or even social standing. There had been initial concerns by tutors that the widely different backgrounds within each learning group could prove difficult to manage however these were unfounded. Tutors involved in delivery felt that groups had worked well together and the group dynamics had made for lively and deeply insightful discussions.

**What support exists to develop these skills within the charitable sector?**

13. Evidence from SkillShare’s research suggests that there has been a distinct lack of support for learners pursuing skills in good governance of VCS groups, largely due to the absence of a suitable course or qualification. That does not mean that groups have been completely unsupported as there are a range of very good publications in existence to guide them through the process and support is available from Local Infrastructure Organisations. Levels of support however vary from area to area and are often dependent on the availability of funding to provide them. Support is generally given in the form of one-to-one advice and information designed to help groups overcome a problem at that moment in time rather than a strategic plan to embed the skills of good governance within the group itself.

14. What is missing is a concerted effort to capture the essential duties and responsibilities of governance and a high profile campaign to ensure that those seeking to volunteer as trustees, committee or board members thoroughly understand the role and have the skills, confidence and knowledge to do so effectively. Whilst literature that supports people in the role is valuable it can only be so if there is an awareness of its existence along with the opportunity to discuss and contextualise this information. The research carried out by SkillShare demonstrated that less than 20% of learners were aware of the existence and relevance of publications that aimed to support them in fulfilling a governance role but after participating in the learning programme all learners stated they now regularly use these materials and over three quarters had now embedded this good practice within their groups.

15. Over half of learners participating in the pilot programme were simply not aware of the existence or relevance of governance skills having joined boards to ‘make up numbers’ or ‘just to help out’ with no real understanding of the duties and responsibilities (and indeed rights) of trustees and management committee members. This was especially true in longer established organisations where founder and longer serving members or staff were viewed as the key decision making personnel leaving other members with the view that they acted as a ‘sounding board’ rather than having decision making responsibilities themselves.

16. Nine of the forty-three learners felt that prior experience in business or civic roles gave them the experience needed to govern VCS groups well. There is no doubt that
these skills and experiences made a positive contribution to groups, but on reflection learners felt that at the start of the programme they ‘didn’t know what they didn’t know’ about governance and recognised that to effectively fulfil a governance role they needed access to the skills, knowledge and information that the course provided.

17. This was a view shared by all other learners and in fact the phrase ‘I didn’t know what I didn’t know’ was commonly expressed. Another comment that was heard or noted on evaluation forms repeatedly was ‘I wish someone had just told me’. These reflections clearly demonstrate that while a range of information may well exist, it simply is not reaching the people it needs to. When joining or considering joining a Board people are very much dependent on being given timely and accurate information about the role at the outset but evidence from the pilot programme (and Governance conference) suggests that this is not always the case.

18. Charities and other not-for-profit organisations could benefit from embedding robust recruitment and induction processes for new members and planned regular learning opportunities for those working in a governance capacity.

5 September 2016
Small Charities Coalition – Written evidence (CHA0140)

About Small Charities Coalition

1. Small Charities Coalition was created by small charities to respond to the need for free, accessible and sustainable support. Now a coalition of over 7,650 members, our mission is to champion the role of all small charities, whether registered or not, that have an annual income of less than £1 million. We collaborate with individuals and organisations across all sectors to provide small charities with development opportunities such as skill sharing, training and resources.

2. Working with our membership, we listen to their concerns and raise them with decision-makers to help create a stronger, well-equipped and more confident small charity sector, valued for the positive difference it makes in society.

3. The evidence below supplements oral evidence provided by Small Charities Coalition on 12 July 2016. This evidence seeks to reinforce the context and key points raised, as well as signposting to further issues.

Executive Summary

4. Small charities - with an income under £1 million per annum - make up 97% of the charity sector, with 85% of the sector having an income under £100,000. Despite being the majority of the sector, charity policy, regulation, processes and attention are predominantly given to the 3% of larger organisations.

5. Small charities play an essential role in creating thriving communities, whether based in localities or mutual interests. As they are more rooted or embedded in their communities, they are able to better understand beneficiary needs and their smaller structures enable them to be more responsive to change. Small charities also have the potential to be more innovative in their responses, as they provide personalised responses and engage the hardest to reach.

6. Small charities have always faced challenges due to low income and resources, higher dependency on volunteers to deliver operational functions, and accessibility of support for the executive and trustees to enable them to deliver their roles to their fullest potential.

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451 “MacGillivray et al. (2001) argue there are more than 900,000 micro-organisations in the UK. The New Economics Foundation estimate is between 600,000 and 900,000 (cited in NCVO, 2009)” cit. Third Sector Research Centre, 2010 'Below the radar' activities and organisations in the third sector: a summary review of the literature

452 IPPR North. 2016. Too small to fail.
Small Charities Coalition – Written evidence (CHA0140)

7. However, these are especially difficult times for small charities. Since 2008, as the largest charities have seen significant increases in their income, so small charities have seen their income fall significantly. This is often coupled with an increased demand for services.

![Figure 10. Overall income by income band, cumulative change, 2008/09 to 2012/13 (2008/09 = 100)](image)


8. The impact of the lack of funding options, compounds the previous challenges facing small charities. The cuts in funding have seen the erosion or stretching of services of infrastructure bodies and informal networks who previously provided support. Whilst small charities can continue to seek to develop themselves this will not be enough without the wider systems they sit within actively seeking to support small charities.

9. The key challenges may be summarised as follows:

- Small charities are typically **unheard and undervalued**.
- Small charities being unheard leads to **poor design and communication of policies, regulation and governance**.
- Small charities face significant pressures from the current financial trends of **income losses, income instability** and **a lack of options for diversifying income sources**.
- This is **preventing effective long term strategic planning, networking and good governance** in small charities.
- Trustees of small charities are being given **increasing work-loads and stresses** despite being volunteers.

10. In responding to this evidence call, Small Charities Coalition are advocating for a **more supportive environment where small charities are valued and prioritised**. At a time when

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community cohesion is high on the agenda, current circumstances risk losing many brilliant small charities that provide vital links across communities.

11. We wish to see simple and proportional creation and communication of policies, processes (including procurement) and regulation. To achieve this we are asking government to see proper engagement with small charities as an investment of resources to enable better solutions. In particular we are highlighting the need for government and the regulator to appropriately plan resourcing for engagement with small charities - and also a return to grant funding to give small charities a chance to be heard, innovate and flourish.

The Role and Purpose of charities

12. The diversity of membership of Small Charities Coalition is reflective of the great diversity in the small charity sector. Small charities are frequently borne out of a community need, whereby founders spot a gap and decide to take action. By being grounded in a community, rather than ‘put onto’ an issue, small charities are able to engage and respond to the changing needs of those within the community more effectively, and build greater trust.

13. There is a challenge to the role of charities in the contradiction of expectations. On the one hand charities are expected to be volunteer-led, reliant on the kindness of public donations and highly collaborative. On the other hand charities are to be professional, operating effectively to meet their beneficiaries’ needs and competing for contracts with the very organisations they should hope to collaborate with. This leads to a very careful balancing of expectations and thin line to walk to be successful as a small charity.

Pressures and opportunities faced by small charities

14. These are especially challenging times for small charities. Since 2008, as the largest charities have seen significant increases in their income, so small charities have seen their income fall significantly. This has often been coupled with an increased demand on services\(^{454}\)

15. As stated in the summary, small charities have always faced challenges due to low income and resources, higher dependency on volunteers to deliver operational functions, and accessibility of support for the executive and trustees to enable them to deliver their roles to their fullest potential. With 85% of charities receiving under £100,000 in yearly income the impact of resource pressures and

\(^{454}\) NCVO.2016. Navigating Change.
15. However, the loss of grants and smaller contracts has been of particular concern. The Grants for Good campaign spotlights why grants are a vital source of income for small charities, and why they allow charities to operate effectively and innovate in key areas.

16. Furthermore, we would like to highlight the group submission on areas for improving contracting for small charities and the work done by Lloyds Bank Foundation on commissioning practices for small charities. Localism is in many cases undermined if contracting is going to large organisations, rather than small community-based organisations that are already established in the area and understanding of community needs.

17. The role of the trustees and executive are increasingly pressured within small charities, with the continuous burden of fundraising and rising levels of regulation to comply with.

18. These circumstances are important to note, as it means small charities are increasingly focussing on their ability to fundraise to meet the needs of their beneficiaries, whilst being concerned about their continued survival. This increased pressure on fundraising and concern for the impact on beneficiaries, provides less time and headspace for wider issues surrounding governance and leadership.

How do Charities seek to innovate, particularly in the digital arena?

19. With innovation, we agree with social impact consultancy Aleron’s summation that: “innovation doesn’t have to be ‘new’, it just has to be new to your organisation.” For small charities the ability to innovate in the digital arena can be limited by access to infrastructure, lack of skills and skills development opportunities. It is also limited by a lack of understanding by those within the technology sector of issues facing small charities or beneficiaries of small charities. This may include access to broadband, hardware and software. Furthermore, where a charity is reliant on volunteers it can be challenging to recruit people with the right skills.

19. There are opportunities in digital innovation for small charities, such as technology being used to provide or strengthen networks and working across sectors. For example, IBM and Small Charities Coalition provide training to small charities on ‘Technology Planning’ and ‘Social Media’.

20. The ability to innovate and capitalise on the potential of digital opportunities is prevented by a lack of stable funding and confidence of trustees to take a risk. Without funding which allows for innovation, such as grant funding it makes it harder for trustees to explore new ways of working.

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Aleron, 2015. “5 guiding principles to becoming truly innovative”, 935
Governance and leadership

21. In smaller charities, individuals on the board of trustees are likely to volunteer for the role due to a passion for a cause, rather than due to governance expertise. This creates a greater need for training and development for trustees of small charities to ensure they are aware and able to perform their role effectively.

22. To improve trusteeship - and how trustees work with the executive - regulation and policies need to be simple, proportional and supportive. The current environment, which is increasingly complex with new or further reaching regulations placed on charities, presents a challenge to trusteeship. The workload is increasingly laborious for a role which is performed by volunteers. This has lead to Small Charities Coalition to call on government and regulators to create policies and regulation that are simple, proportional and supportive.

23. There is also a lack of diversity for trustees and leaders of charities, with the current complex communications about the role of trustees creating one of many barriers to inclusion. It is important to ensure there is a balancing and sharing of experiences and skills across charities, as well as in charities.

24. There are multiple initiatives across the sector to improve governance and leadership. However, governance and leadership initiative will not be successful without the Charity Commission being resourced to support these initiatives and the local and national government support. This support includes full-cost recovery with core costs being allowed in funding bids to local and national government. Furthermore, grant funding would allow flexibility to invest in governance and leadership development.

Accountability

25. Proper accountability also requires proper scrutiny. Charity accounts are not easily comparable, with figures requiring context. There are concerns that simplistic readings of charity accounts provide skewed information, as well as misunderstandings about what a charity is defined as or by.

26. One of our members highlighted that they previously had used not spending money on ‘administrative/back office’ functions as a selling point when seeking public donations. However, they soon discovered that this was at the expense of properly supporting their

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beneficiaries and now look to ensure that how money is spent is directed to most effectively serving their beneficiaries needs. It was recognised that despite donor preference, this spending strategy was not effective for delivering their charitable aims. Yet, there is a concern that reading and comparison of charity accounts by the media or the public can often be simplistically reported or misunderstood. There is a need for clear messaging about the diverse ways charities can operate.

27. Good governance and leadership help ensure proper accountability, however there is an incentive not to invest in these areas if seeking public donations. If following current trends small charities will have to seek greater public donations due to the loss of grants and small contracts.

Financial sustainability

28. As stated in oral evidence and in sections above, if trends continue small charities will see a significant fall income and available income sources, with the erosion of grants and small contracts.

29. Whilst there are other forms of income, there is increasing competition for foundation funding and small grants and contracts. Small charities have always faced difficulties with public donations due to a lack of awareness, and newer forms such as crowd-funding are not sustainable sources. Increasing awareness of small charities will help, but it must be seen in the wider context of engaging local and national government and regulators to create a supportive environment for small charities to thrive with funding sources such as grants and contracts and appropriate tax breaks for small charities.

30. There are concerns that the loss of EU funding will impact heavily on small charities, both in money previously budgeted for devolution and current funds provided by the EU and distributed either directly or through intermediaries to small charities.

Social Investment

31. There is a significant need for new funding streams for small charities; however social investment and particularly social impact bonds (SIBs) are typically not appropriate as a source of funding. Whilst larger charities may have both the structure and expertise that make social investment appropriate, frequently small charities do not. Although social Investment and social impact bonds offer an opportunity for some larger charities, it has been stated by providers such as Access and Big Society Capital that social investment is not always suitable for all charities - particularly small charities.
32. Furthermore, there is a concern that in the government’s earnest promotion of social investment (particularly SIBs) to the charity sector the growing funding crisis is being overlooked. The limitations of social investment are not a failure of the model, but a recognition that social investment needs to sit in a wider eco-system of funding options that charities can use. As small charities make up 97% of the sector other forms of funding - such as grants - will remain essential for the future of small charities.

33. The barriers for a small charity to overcome to fully understand the implications and complete a suitable due diligence/risk assessment to ascertain whether or not a form of social investment is appropriate may be prohibitive in even beginning to explore social investment as an option. Therefore support must be available to small charities to understand social investment products and quickly decide if it is an appropriate option.

Role of Government

34. The role of local and national government and how they work with small charities has changed significantly over the past 5 years. Both how the government works in relation to funding small charities and listening to their voices.

Voice

35. The benefits of small charities to government at both a national and local level should not be understated. Small charities- alongside wider civil society - play an important role in preserving and developing the democratic health of the UK. Their reach and ability to engage communities that can otherwise be lost within mainstream politics, means they are essential to a thriving, inclusive society. Small charities helping government access typically unheard voices allow government to identify and respond to needs, co-creating solutions and funding appropriately.

36. There is concern that the Lobbying Act and Anti-advocacy clause have had a quietening effect, even on those who are not subject to their restrictions. Confused guidance about legislation and concerns about speaking out of turn are preventing small charities from engaging effectively with government at a local and national level. Any quietening of small charities voices only diminishes government’s capacity to make good decisions and understand the populations they serve.

37. At a national level work is required to ensure that the move of the Office for Civil Society and Innovation from the Cabinet Office to the Department of Culture, Media and Sport does not create an obstacle to embedding OCSI’s work across government departments. At a time of uncertainty and low resources, it is important that resourcing is focussed on building and developing capacity for collaboration and engagement across
departments and more broadly on how different departments work and communicate with the sector. It may be that a more formal network of OSCI leads is required across all departments to ensure that work is strategically embedded.

38. At a local and national level strategic planning and consultation must ensure there is enough resource to engage with small charities throughout the process, whether this is making contact with small charities or helping them overcome the barriers to participation by ensuring there is:

- **Time**
  - Government must ensure enough time is allocated for the engagement process, including making people aware of upcoming consultations so small charities can plan their resources accordingly.

- **Cost**
  - Government must recognise the cost to small charities in engaging - both in cost for time away from day-to-day charity functions and for expense incurred by attending events.

- **Confidence**
  - Small charities have less resource to prepare, and may be less aware of conventions within political and government institutions therefore they need to be supported to prepare and be informed about of the consequence of engagement.

Funding, voice and government

39. With voice and funding we are particularly concerned to hear that local authorities have moved away from involving small charities in the grants and contracting process. The use of more commercial contracting processes - and even examples of local authorities penalising small charities who question contract conditions - shows that the engagement of small charities urgently needs to be addressed through the creation of effective systems.\(^{458}\)

40. Funding from government grants has fallen 64% since 2008/09, and simultaneously contracts to small charities have decreased by up to 37%\(^{459}\). Therefore, it is essential that this mechanism of funding is reinstated to allow for strong relationships between government and wider society. If promoting an agenda of localism it is important that local authorities have to justify the use of larger commercial providers - as this appears to be antithetical to the localism agenda.

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\(^{458}\) Lloyds Bank Foundations submission, and a joint submission from Lloyds Bank Foundation Small Charities Coalition, CFG et al. provides further details.

\(^{459}\) NCVO. 2016. Navigating Change.
41. Small Charities Coalition supports the **Grants for Good campaign**[^460], as grants are a simple, proportional means of funding and supportive of small charities. In addition, grants provide essential core funding and allow for greater innovation and development of a small charity. We would welcome the government providing guidance and training to ensure better commissioning practices.

### Devolution

42. Devolution offers both opportunities and challenges, depending on the type of small charity.

43. For local small charities, devolution should theoretically offer a significant opportunity to build stronger local networks and community. However, currently the grants and contracts process - and wider decision-making processes - indicate that there are barriers to this opportunity being taken up. **To make the best use of the opportunities presented by devolution, better engagement and involvement of small charities is needed at the early stages of strategic decision-making.** This will help ensure that local decision-makers make sustainable decisions, building upon existing good work and responding to the needs of the local area. Some key principles for engaging with small charities are stated above.

44. For some small charities, which are small but not locally based, devolution could present a challenge. This may include small charities that work nationally, those with an online presence and international development charities. These charities also offer a form of community and linking up. One example would be the winner of the Britain’s Best Volunteer Award - Hypopara UK. As Hypopara UK is an organisation supporting beneficiaries with a rare illness, it is unlikely there would be a concentrated group of individuals in a locality, however they still offer an important service helping people to self-manage and overcome social isolation and other issues related to long-term illness. **As such, the government must think about those that exist outside the local framework and how it intends to support them.**

### Role of the Charity Commission

45. As stated in oral evidence, the majority of people start, work for, or volunteer for a small charity as they want to create a positive change - and not because they are enamoured by the prospect of paperwork to comply with charity regulations. Often regulation is seen by small charities as an obstacle, rather than useful and supportive in working towards their charitable aims and purpose.

[^460]: [https://www.dsc.org.uk/grantsforgood/](https://www.dsc.org.uk/grantsforgood/)
46. The role of the Charity Commission as a regulator is to ensure compliance with regulation. However, avoiding compliance culture and creating a setting whereby charities learn and grow from their mistakes requires a supportive approach to regulation rather than punitive. **To ensure regulation is used properly organisations need to understand why compliance increases charity effectiveness.**

47. At Small Charities Coalition, where possible we have provided feedback and supported user-testing for the Charity Commission to help highlight difficulties facing small charities. It is important that more work is proactively and systematically undertaken and encouraged to ensure small charities are engaged with the Charity Commission to create effective change.

48. We are also aware that the Charity Commission refers to our helpline for small charities to gain support with registration and other regulatory concerns. This is reflected in our data that 644/843 queries to our helpline in 2015/16 were governance related, with 371 being specific to setting up and/or registering a new charity.

49. As part of our role with the helpline and wider services, we encourage and support small charities to ensure they have done their research and that there isn’t duplication of work already being done in the area. However, many of those at the point of registration have identified a gap or need within a community, and feel like they are being held back from responding to it by paperwork and confusion around the registration process.

50. With funding cuts the Charity Commission is in a difficult position, without the resource to work with infrastructure bodies effectively - let alone individual charities. However, with the advisory and supportive role falling to organisations such as Small Charities Coalition this means the Charity Commission is missing out on vital insights on how regulatory change is impacting on small charities. This is also stretching the resources of infrastructure bodies further in a difficult funding environment. **The Charity Commission requires more financial support from government to fulfil its role effectively.**

**Lessons from other sectors**

51. Lessons from the positive agenda the government has had to supporting small businesses and removing barriers to entry should be extended to small charities. Even with government initiatives the Public Accounts Committee highlighted difficulties with current procurement practices, with larger providers were squeezing out small and medium sized enterprises.\(^{461}\) In doing so it called upon government to “help departments identify the

areas where SMEs can best add value "and how it will structure contracts and procurement to enable them to compete accordingly". Small Charities Coalition would welcome a similar call to action for local and national government to ensure small charities are able to survive and continue doing their great work across communities.

6 September 2016
Stella Smith — Written evidence (CHA0060)

About Stella Smith

I’m an independent consultant and facilitator and have been working in and with the UK voluntary sector since 1990. I set up my own business in 2006 and provide strategic consultancy and training to a wide range of small and large charities as well as to commercial clients. I have been a Trustee of various Boards and before going self-employed worked for Centrepoint and RNIB. I have written various guides and publications on charity management and am monthly columnist for Third Sector magazine. This submission is based on my personal experience. The statements are made on an individual basis and not on behalf of any company or interest.

1. The Role and Purpose of Charities in Civic Society in England and Wales

1.1 The charity sector includes a diverse group of organisations from local welfare groups, campaign groups, social clubs, private schools to huge organisations such as the National Trust or the Wellcome Trust. Many do not conform to what most people would describe as a ‘charity’. In general they exist to provide some social benefit, supported to some degree by donated money and governed by a Board of Trustees. They often provide a way of bringing like-minded people together to achieve some social goal. However, given the range of organisations classified as charities it is very difficult, if at all possible, to identify one unifying role or purpose which applies to all.

1.2 In the 1970s, the sector was smaller with charities largely funded by individual donations, trusts and foundations. Charities tended to be more focused with specific aims often around helping others and campaigning for change. However, in the 1980s and 1990s, when public contracts become outsourced, charities became more involved in running public services and some expanded quite quickly. For these charities their independence became compromised as their main purpose became delivering public services. This led to the current divisions in the sector where you find a few very large charities and a massive number of very small organisations. It has also led to ‘mission drift’ where charities have gotten involved in activities and services not because they are in keeping with their purpose or vision but because they bring funding into the organisation.

1.3 It is difficult to identify what exactly makes charities distinct from other organisations doing similar work. People in the sector often feel that charities are more values-led but, given the massive range of of charities, that is debatable. There is certainly less of a focus on bottom-line profit than there might be in other organisations.

1.4 Smaller charities and community groups in particular have a hugely important role to play in terms of community cohesion. They bring diverse groups of people to work on causes that are important to their neighbourhood and locality. In the current environment, these organisations could be incredibly useful to help build bridges across divisions in the UK. The problem is that these organisations are very under-resourced, struggle to find time to apply for funding and often cannot provide the track record and infrastructure for monitoring and reporting that funders may want to see.
1.5 Charities are often dealing with the most marginalised, difficult to reach, excluded communities and individuals. They are tackling some of the most complex problems society faces and these challenges and difficulties can permeate the way they work. Many charities are staffed by people who are working very hard in extremely challenging circumstances.

2. Pressures and Opportunities

2.1 The constant challenge for charities is the lack of a clear bottom line. There is no one way of measuring charity effectiveness which leads to a whole range of different attempts to measure impact and outcomes with varying degrees of success. This is often driven by funders who each want to see that their money is being spent effectively on the measure which they regard as important. The consequence is that charities spend a huge amount of time monitoring different outcomes and measures for different funders.

2.2 Having said that, it is important for their longer-term financial stability that charities have a range of income sources. They pay for this financial stability through the time spent complying with the varying monitoring requirements of different funders.

2.3 Securing funding and managing short term funding is another pressure. Charities invest significant amounts of time and energy filling in funding applications often with limited success. When they are successful, funding is often for just 3 years. By the time staff have been recruited, inducted and skilled up this often only leaves 2.5 years to deliver on the project outcomes. In reality the last eight to six months of the project staff are often preoccupied with trying to extend the funding or find other jobs. So staff are frantically working in the limited time they have to deliver a three year project.

2.4 There is also the constant challenge of covering core costs. There is a financial cost to writing funding applications, ensuring regulations and checks are complied with, managing staff and volunteers, paying rent on buildings etc. But funders are often averse to covering these costs, preferring to fund projects for which they can see tangible outcomes. For larger organisations, the core costs can often be allocated across a range of funding streams. But covering core costs is a particular challenge for small charities which run just a few projects and have little in the way of reserves.

2.5 Another major pressure is the lack of skilled senior staff and trustees. Many senior staff have worked their way up through the ranks and have undertaken very little if any management training or been exposed to good leadership themselves. This lack of skill leads to clumsy decision-making, risk averseness and a defensive lack of confidence. By and large charities will say their main challenge is a lack of funding. That is, and always will be, an issue. However, to point to financial resources as being the source of the sector’s woes is an oversimplification. A key challenge is that the sector simply does not have enough of the skills and talents necessary to run what are often complex organisations. This is exacerbatied by the fact that many managers and leaders struggle to accept that they are lacking skills and there is a culture of blaming factors outside of their control for shortcomings.
2.6 There are huge challenges for governance. In reality, the people who have the skills and expertise to sit on charity boards do not have the time. Charities are competing over a small pool of talented people to sit on their Boards. Servicing trustee committees, particularly in smaller charities, can be time-consuming.

2.7 There is a massive opportunity for charities to develop initiatives which help bring communities together and demonstrate effective organisational management. However, the need to respond to urgent crises and pressures tend to discourage staff from such longer-term strategic thinking.

3. Innovation

3.1 There are some greatly talented staff who craft excellent proposals for innovative initiatives. However these will often fail when presented to senior managers and trustees. This is often because senior staff and trustees tend to be older with less familiarity and confidence in new technology and social media and they are also acutely conscious of the risks associated with making a poor investment in an initiative they don’t understand.

3.2 The charity sector culture of consultation also tends to dampen innovation. Many charities feel compelled to consult a wide range of staff, volunteers and beneficiaries before putting a plan into action. This can inadvertently deskill and demotivate. It also slows down implementation (so by the time a plan is put into action it is already out of date) and tends to water down proposals, the focus of which tend to move from being innovative to keeping everyone engaged.

4. What skills are required to lead and manage a charity?

4.1 A charity leader needs:

- Ability to manage and communicate with a wide range of stakeholders. These include volunteers, staff, donors, funders, beneficiaries, supporters. Charities are complex operations and a charity leader needs to be comfortable working in this environment.

- Commercial and strategic vision. Charities need to be able to position themselves for longer-term success, and the leaders need to have the awareness to understand wider trends and respond accordingly.

- Financial acumen. Leaders don’t need to be financial experts, but they do need to understand the basics of accounting and business finance and have financial experts they can call on as necessary.

- HR knowledge. As with finance, there needs to be some awareness of HR good practice and basic law. HR problems are unfortunately very common in the sector and it is often because charity leaders lack the knowledge of basic good practice.

- Leadership. Charity leaders are often don’t exhibit leadership behaviours. They are often lacking in the self-awareness necessary to role model and this permeates their organisational culture.

- Charity governance. Charity leaders need to understand the governance structures.
4.2 There are training courses and books out there, but for many charity leaders they need mentors, coaches and role models themselves. The sector has plenty of internal networking and charity specific qualifications but these are by their nature generalised. Leaders are time poor and require on-demand support which is tailored to their immediate needs. Confidential support from established leaders and talented individuals from outside the sector might be most helpful.

5. **What role should trustees play in the performance and effectiveness of a charity?**

5.1 Trustees provide much needed external challenge. They should be able to hold the CEO and senior team to account, ensuring resources are being used to greatest effect, that risks are managed, that regulations are being complied with and generally ensuring the charity is accountable to all its major stakeholders. The problem is of course that this is a huge responsibility, a fair amount of work and takes a lot of time. It is extremely difficult to get capable people to take on trustee roles.

5.2 To enable good strong trustee boards there needs to be some investment in supporting them. There has been some suggestion that trustees be paid although I am not convinced this that this will necessarily lead to them becoming more skilled. There needs to be a government supported drive to encourage large corporates to enable their top talent to donate time to charities by taking on one or two trustee roles throughout their career. The benefits of being a trustee need to be better communicated to people with the skills we need. Whilst charities can learn a lot from corporate organisations, there is also much that staff in the commercial world could learn from being a charity trustee in terms of managing in complex situations with few resources, managing without a clear bottom line and managing diverse stakeholder interests. We need to be more vocal about the learning opportunities of being a trustee.

6. **How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

6.1 The trustee board should be an important aspect of this and should involve individuals who are challenging and exploring the way the charity works from different stakeholder perspectives. In addition, there needs to be more transparency on charity accounting and decision making through information available on the web.

7. **What should the role of Government be with the sector?**

7.1 Government can support and facilitate the space which will enable charities, and particularly small local charities to thrive. It should not be forgotten that these groups provide an enormously valuable benefit in terms of community cohesion, as well as in terms of the services and support they deliver. Government can help by providing small grants,
support with back office facilities (providing offices, meeting spaces, photocopiers, IT advice etc) and setting up and encouraging initiatives which encourage cross sector learning.

7.2 Devolution is likely to increase people’s interest and commitment to local charities and groups and this should be factored into government’s thinking. There is a risk that large charities will start seriously losing the trust of the public as they invest more time in smaller charities whose operations they can see and understand.

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?
One of the challenges which continues to hold back many areas of the charity sector is a misunderstanding around the value which corporate organisations bring and a lack of time and reluctance to learn from other sectors. Developing opportunities for charity staff to develop skills from spending time in different working environments, to experience different ways of working, see how others manage their work, run meetings, present information, influence and make things happen would be hugely valuable.

2 September 2016
Who are we?

1. Social Enterprise UK (SEUK) was established in 2002 as the national body for social enterprise in the UK. A social enterprise is a business that trades for a social or environmental purpose and reinvests its profits in that mission. Social enterprises are businesses driven by social or environmental objectives, whose surpluses are reinvested for that purpose in the business or in the community. They operate across a wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade and at all scales, from small businesses to large international companies. They take a range of organisational forms from co-operatives and mutuals, to employee owned structures, Community Interest Companies, and charitable models. SEUK’s members come from across the social enterprise movement, from local grassroots organisations to multi-million pound businesses that operate across the UK.

2. SEUK is a membership organisation. We conduct research; develop policy; campaign; build networks; support individual social enterprises; share knowledge and understanding; support private business to become more socially enterprising; and raise awareness of social enterprise and what it can achieve.

3. How do charities seek to innovate, particularly in the digital arena? - What more could be done to promote innovation, and by whom? - What barriers are there to being innovative?

3. Over the last decade and more, the term ‘social innovation’ has become an increasingly popular term. Many influential policymakers, politicians, grant-making trusts and foundations have come to explicitly champion the idea of social innovation and have directed significant funds towards supporting practice in the field. Innovation has now become a key criteria for many grant-makers when they come to appraise the merits of social programmes. The UK Government has funded a rash of social innovation hubs, labs, accelerators, incubators and catapults. In the United States, President Obama established the Office of Social Innovation and Civic Participation within the White House. Social innovators’ ability to disrupt old models and markets has been lauded by Ministers across the political spectrum.

4. In this way, social innovation has evolved from something which has been observed as a phenomenon to something which can be consciously pursued as an activity. At the same time, the term has become increasingly associated in practice with the kind of social ventures which share characteristics associated with businesses in the field of technological innovation, for example housed inside business incubators or accelerators inspired by Silicon Valley models; exploiting digital technology; and disproportionately led by relatively privileged, young graduates. This narrow, instrumentalized, tech-focused conceptions of social innovation and an associated thirst for scale are intertwined with, and inspired by the timescales and ROI requirements expected by the venture capital industry. If social
innovations are unable to attract follow-on-funding, forecast exponential growth models and provide exits for investors within six or seven years, then they will be seen to have failed. Yet this model can be particularly inappropriate for civil society organisations where sometimes, scale is not even desirable if an organisation’s primary purpose is to render themselves unnecessary by resolving a social problem. On other occasions, the ambition for a social innovator (self-styled or otherwise) may be that their idea is adopted by the state, by the private sector or by other charities and social enterprises. In these circumstances, scaling the organisation that originally pioneered the social innovation (and enabling the delivery of returns to investors) is not the point. Much genuine and sometimes accidental social innovation takes time, and neither does it require investment from VCs or other investors.

5. Of course innovation is important. But we must also value and defend the critical maintenance work of charities, volunteers, community groups and social enterprises that deliver care and support for those who have been left behind. It is possible to cherish both social innovation and maintenance. The rise of this excitement and hype associated with a recent, self-styled, hip, urban, technological version of social innovation serves to distract policymakers and resource allocators from the critical maintenance work of civil society, charities and communities which hold our very economy together, the boring but essential work done by food banks, homeless shelters, furniture recycling projects, credit unions and citizens’ advice bureaux across the country.

6. Caroline Mason from the Esmée Fairbairn Foundation has felt the need to point out what has been forgotten by many – that some grant-making foundations do not see themselves as agents of social change as, rather, they "provide the bread-and-butter funding that is currently about the only thing preserving the very survival of many communities around the country". Similarly, Julia Unwin in her seminal Grantmaking Tango points out how “Despite all the talk about innovation and change, a significant proportion of all funding is designed to maintain activity at current levels, in the same style or expand it.” But Unwin and Mason are perhaps rare, independently minded, honest voices in the field, and rather less prone to be seduced by the rhetoric of social innovation than some others. We must remember the importance of maintaining our existing social infrastructure where it has value - not everything that is old should be left to wash away.

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public? - What, if any, changes might this mean for current arrangements? - How should charities assess their long term viability and/or sustainability?

7. Social Enterprise UK expects our members to be accountable and transparent, and we have long campaigned for greater accountability and transparency as a matter of principle for the public, private and third sectors. In particular, we consider greater transparency crucial for organisations holding sizeable public sector contracts.

8. In our report, The Shadow State, we proposed:
The extension of Freedom of Information rules to any organisation holding sizeable public sector contract.

An independent contracting oversight body should be established to scrutinise contracting decisions and prevent unfair competition. It should be overseen by the National Audit Office but have sufficient weight and power to challenge and overturn departmental decisions. It should have the powers to issue penalties when organisations fail to deliver outcomes and these result in cost to the public purse.

Performance under previous contracts should be explicitly weighed up as part of the decision-making process in procurement decisions.

9. Some progress has been made in respect of Freedom of Information and past performance but this has made little impact on the ground in practice. We have also argued that rule around gender pay gaps and pay ratios should be extended to any organisation holding large public contracts, not just FTSE-listed organisations.

10. For charities specifically, the Charity Commission, in their guidance on public benefit, explain how, for an organisation to be a charity, each of its purposes must be for the public benefit. The Charities Act 2011 calls this the ‘public benefit requirement’. The public benefit requirement has two aspects. To satisfy the ‘benefit aspect’ of this requirement, a purpose must be beneficial - this must be in a way that is identifiable and capable of being proved by evidence where necessary and which is not based on personal views. But furthermore, any detriment or harm that results from the purpose (to people, property or the environment) must not outweigh the benefit - this is also based on evidence and not on personal views.

11. Yet in the Charity Commission’s Public Benefit Assessment reports, such as one into The Manchester Grammar School Foundation, the Commission make no serious attempt to consider this harm or detriment. In this report, for example, they simply state that “we found no evidence or indication of detriment or harm in relation to this charity. Given the charity’s inevitable impact on the local educational environment, for example, we believe this assessment is surprising.

8. What is the potential of social investment and social impact bonds? - What are barriers to fulfilling their potential?

12. We recognise that government has already provided significant support to the development of social investment market, through the establishment of Big Society Capital (BSC) launched in 2012, the Access Foundation, developing the social impact bond market and funding capacity-building programmes such as the Investment and Contract Readiness Fund. In addition, the recent introduction of specific trustee powers to make social investments is a welcome development.

13. The Office for Civil Society’s 2016 strategy outlines how Government will:

- use social investment to transform public services;

462 http://forms.charitycommission.gov.uk/media/93767/assessmgsf.pdf
• grow the social economy; and
• strengthen the social investment marketplace.

14. Social investment has considerable promise; but it needs to be seen in context, that it has yet to live up to its expectations. While Big Society has itself committed many millions of pounds alongside other investors, only a fraction has reached charities and social enterprises. Social investment and Social Impact Bonds may, with time, help to address some of the most pressing social challenges in society. They may help organisations to access new sources of finance and support in order to scale their impact, purchase assets, build new partnerships and develop innovative services. But they are not a panacea and not for everyone. Social investment is repayable finance and is not a replacement for grants or income from other sources. It is an additional tool that charities can use to deliver impact but may not be appropriate for organisations that are not able to generate revenue to repay an investment. It is worth noting that even for ‘mainstream’ SMEs, less than 1% ever access external equity finance.

15. The main challenge for the Government’s social investment agenda, is matching supply and demand: The price of investment and the size of deals is a barrier to some charities. Blended finance, crowdfunding and Social Investment Tax Relief, despite its flaws, may help to address this gap. Other challenges for social investment include attitudes to risk, awareness and capacity in the sector, sustainability of services in the current public sector funding environment and the availability of appropriate accessible and affordable products. Solutions may emerge with time.

16. With regard to Social Impact Bonds, the UK has led the way in developing the Social Impact Bond market. This has helped a few dozen charities receive funding to test out innovative approaches to tackling a wide range of social issues including children on the edge of care, loneliness, wellbeing, homelessness and educational attainment. There have been around 30 Social Impact Bonds until recently. SIBs have received considerable criticism for being overly bureaucratic, time consuming and expensive to put together. Even the strongest advocates of SIBs admit that they will never be relevant to the vast majority of charities and social enterprises. There have been few, if any, meaningful comparisons between SIBs and other methods of funding or procurement. Meanwhile, the NAO examined Payments by Results mechanisms, of which SIBs are just one variant, and concluded that "PbR contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim - such as innovative solutions to intractable problems - then the increased cost and risk may be justified, but this requires credible evidence" and that as yet there that evidence is lacking.

17. There are a number of opportunities that the Government could consider to support charities and social enterprises beyond a narrow focus on social investment. Whilst the question is focused on social investment, Social Enterprise UK wishes to draw the Select Committee’s attention below to more important forms of funding for charities and social enterprises. These include procurement, fair access to markets, monopolies and oligopolies, tax evasion by large corporates and other issues.
9. What should the role of Government be with the sector? - What should be the role of local Government? - What should be the role of the Charity Commission? - Have these relationships changed? If so, how? - How should Government (national or local) focus its resource to deliver its civil society agenda? - What is the likely impact of greater local devolution on the charitable sector, or particular types of charity? - What are the opportunities and challenges associated with local devolution?

Social Enterprise UK believes the Government should strengthen extend the Public Service (Social Value) Act 2012. The Act was designed with number of aims in mind including making it easier for charities and social enterprises to win contracts from the public sector. The effect that realising the potential of the Act is set out in Lord Young’s review – charities and social enterprises could create greater social impact if the state was wiser in how it purchases goods and services.

SEUK believes the Government could also:

- Further involve charities in shaping responses to major social issues: Charities are experts in understanding social issues and could be involved more in setting policy responses to addressing them. Many social issues cut across Government departments so a co-ordinated response is often needed to address them.

- Improve procurement practice: It can be a challenge for many charities to bid for public sector contracts so there is a need to level the playing field. There are particular issues in the health sector specifically which create a distorted playing field, around pension rules and VAT, for instance.

- Further capacity building and infrastructure support: The Government could provide further capacity support to charities to help them become more sustainable and to build the skills that they need to respond to the current environment, to market opportunities and not only to social investment.

- Promote charities role in devolution: There could be an opportunity for charities to play a greater role in service delivery as part of local public service reform but further clarity is needed about how charities should engage with these new structures

18. The constituent elements comprising the social economy – which includes charities, social enterprises, mutual and cooperatives – operate within different regulatory and tax regimes. Some organisations operate within multiple regulatory and tax regimes; the outcomes for something as basic as business rate relief can vary according to geography and time, and indeed can vary for different parts of the same organisation depending on the attitude of individual local authorities. Greater devolution is likely to result in further examples of differential treatment. There may be value in a review of the current state of affairs to see what extent such variations are unfair, skew the playing field, and produce perverse outcomes (such as the adoption of what might otherwise be inappropriate legal structure over others for regulatory/tax reasons).
19. Meanwhile the Charity Commission is currently reviewing its guidance towards charities funding of non-charities. We are concerned that this review may not sufficiently recognise issues pertaining to overseas charities, start-ups, social enterprises which are not charitable and the appropriate attribution of overhead costs.

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

20. The UK Government has much to be proud of. The legal system backing up charities, and charity and business-friendly regulation makes us the envy of much of the world. But there is much that the UK Government can learn from other countries and our own devolved Government in how they support the third sector.

21. In Scotland, the Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy John Swinney MSP has made clear his commitment to support for social enterprise, employee ownership and co-operatives. In particular, in developing Markets for Third Sector Providers, promoting and improving understanding of the delivery competence of the third sector and the added value it can offer; promoting understanding and adoption of the Public Social Partnership (PSP) model and more.

22. In Wales, the inclusion of Community Benefits (sometimes referred to as social clauses or social requirements) in public sector procurement is designed to ensure that wider social, economic and environmental issues are taken into account when tendering construction, service or supplies contracts.

23. In Europe more widely, the Council of Europe in December 2015, including the UK, made recommendations on what EU member states could do to further support the social sector. These recommendations went further than the current UK approach to cover awareness raising, access to finance, social innovation, regulation and more. In Italy, successive governments have provided a range of support, including spending and fiscal measure to support social cooperatives in the provision of a range of services. In France in 2014, The French National Assembly passed a new social economy law and has introduced laws to ensure that pensions can be more easily invested in more socially conscious investments.

5 September 2016
About us

Social Investment Business is a registered charity. We provide loans, grants and support to charities and social enterprises to help them change the lives of the people they work with.

We have helped hundreds of organisations become more resilient and sustainable so that they are in the best place to grow and increase their impact.

We were one of the UK’s first social investors and since 2002 have provided over £380 million worth of loans and grants to extraordinary organisations all across the country.

Why we are responding

We are limiting our response to this consultation to question eight; what is the potential of social investment and social impact bonds? What are barriers to fulfilling their potential?

We hope that you find the contents of our response helpful and we are happy to clarify or provide further information on any areas of our response that the committee finds useful.

8. What is the potential of social investment and social impact bonds? What are barriers to fulfilling their potential?

1. It is first necessary to make an important distinction. The potential of social investment and the potential of social impact bonds are two very different things. Big Society Capital offer the following definitions:

- **Social investment**; the provision and use of capital to generate social as well as financial returns.\(^{463}\)

- **Social impact bonds**; a form of outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being admitted to hospital) which deliver a saving to the public purse. The expected public sector savings are used as a basis for raising investment for prevention and early intervention services that improve social outcomes.\(^{464}\)

2. A social impact bond is a type of social investment which actually make up a small proportion of total social investment. According to a Big Society Capital report on ‘The Size and Composition of social investment in the UK’ social investment in the UK was worth at least £1,500m at the end of 2015. Social impact bonds accounted for 1% of that figure. The majority of the £1,500m was comprised as follows:

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\(^{463}\) https://www.bigsocietycapital.com/glossary

\(^{464}\) https://www.bigsocietycapital.com/glossary
• **Social bank lending (36%)**: Loans (normally with security) from UK Social Banks to charities and social enterprises.

• **Profit with purpose (30%)**: All types of investment in profit with-purpose (non-asset locked) companies.

• **Non-bank lending (11%)**: Non-bank lending via specialist funds and other channels to charities and social enterprises.

• **High Impact Social property (9%)**: Capital for service delivery by charities and social enterprises involving property.

• **Community shares (6%)**: Community shares, mostly issued by community benefit companies.

• **Charity Bonds (6%)**: Bonds issued by registered charities targeting social impact and with explicit impact measurement.

3. Whilst it is important to recognise that Big Society Capital do caveat their figures and claim that they are confident in the validity of their data to a “reasonable degree of accuracy (+/- £tens of millions)” this is still the most comprehensive data available regarding the size and shape of the social investment market and is one of the best resources we have to understand the potential of social investment.

The potential of social investment

**To be an alternative source of finance for charities and social enterprises**

4. Social investment exists to solve a market failure; the lack of appropriate finance for charities and social enterprises. If social enterprises and some charities are delivering impact while generating income then these activities can be funded by loans or investment. This means that grants and donations can be directed to where they’re most needed and where social investment is not appropriate.

5. Social investment is most useful if a charity or social enterprise is unable to get finance from a mainstream bank. Where this is possible, we would always advise organisations to do so. A recent report “Forest for the Trees” suggests that mainstream bank lending to the social sector may be significantly greater than that from the social investment market. If this is the case then social investment should be filling the gaps that mainstream finance is unable or unwilling to, such as smaller deals (less than £250k) or where the risk of the deal is significant.

**To improve public services delivery**

6. One of the most common uses of social investment, and where government interest has been particularly high, has been to support charities and social enterprises to deliver public services. Futurebuilders, the Social Enterprise Investment Fund and Social Impact Bonds were all developed with this objective. All of these innovations were predicated on the

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467 http://www.rbs.com/content/dam/rbs/Documents/Sustainability/Forest_for_the_Trees_%20202016.pdf
assumption that social sector organisations can help improve public services outcomes but the lack of appropriate finance was a barrier to them doing so. Providing appropriate finance is just one side of the coin though. For charities and social enterprises to help improve public service outcomes the markets for those public services need to work for them too. If they do not, the existence of a functioning social investment market alone will not improve public services outcomes. More information on this point can be found later in this response.

To help charities and social enterprises adapt to the changing funding landscape

7. According to the NCVO Almanac grants from government to charities are less than half the level they were ten years ago\(^\text{468}\). There has been a marked shift towards contracts. While social investment is not and has never been a substitute for grants, the withdrawal of grant funding has meant that many organisations have had to diversify their income streams and look at trading activity. Social investment can help support that trading activity and help provide the financial rigour that is necessary in a more difficult funding landscape.

To encourage public participation and community ownership

8. One of the biggest success stories of social investment has been the growth of community shares. According to Big Society Capital, community shares account for just 6% of the value of social investment but over 10% of the number of transactions\(^\text{469}\). This high number of lower value transactions shows how popular community shares have been in giving members of the general public the opportunity to own local assets and support projects they care about.

Barriers to social investment

Commissioning

9. Social investment is not a replacement for grants and therefore charities and social enterprises still need to generate income. According to the NCVO Almanac, in 2013/14 the charitable sector received £15bn from government bodies. 81% of this was earned through contracts or fees\(^\text{470}\). Many charities and social enterprises rely on, and are well equipped to deliver contracts for national and local government but commissioning structures need to be set up to allow them to challenge fairly. A recent Big Society Capital and Reform report warned that all but the largest bidders for future central government programmes will be shut out unless a different approach is adopted to payment-by-results and administrative burdens are reduced\(^\text{471}\). A Social Enterprise UK report on the Social Value Act ‘Procuring for Good’ found that just a third of councils routinely consider social value in their procurement\(^\text{472}\). The Act requires all public bodies in England and Wales, including local authorities, to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area. For many charities and social

\(^{468}\) https://data.ncvo.org.uk/a/almanac16/income-from-government/
\(^{470}\) https://data.ncvo.org.uk/a/almanac16/income-from-government/#Income_from_governmentincontext
enterprises the Act could help commissioners’ better account for the additional social value they deliver. Ultimately, commissioning needs to work for charities and social enterprises if social investment is to fulfil its potential.

**Too much hype and lack of relevance**

10. In March 2015, Iain Duncan-Smith, then Secretary of State for Work and Pensions was quoted in the Telegraph saying "Social investment...stands to make perhaps the single most significant difference to how we fund and deliver social services in years to come." In March 2016, Rob Wilson MP, Minister for Civil Society, said that he expected the social impact bond market to be “worth more than £1 billion by the end of this parliament.”

Social investment and social impact bonds have a significant role to play but to publicly anticipate their growth to such scale sets them up to fail. While social investment is an important tool everyone working in this area needs to make sure that the rhetoric about social investment matches the experience, understanding and need of the charities and social enterprises it is supposed to support.

**Shortage of appropriate capital**

11. The “State of Social Enterprise Survey 2015” by Social Enterprise UK asked those who had applied for funding or finance how much their organisation wanted to raise. The most common amount aimed for was between £10,000 and £50,000 (28%), with an overall median amount sought of £60,000. This was similar to the 2013 median of £58,000. The majority of finance available within the social investment market is far in excess of this figure and the cost of doing deals < £250,000 for many social investment intermediaries can be prohibitive under current conditions. It is vital that the supply meets the demand if social investment is to reach a larger proportion of the audience it is intended to serve. Wholesale funders need to consider how they can help provide they finance for these type of organisations. The Access Foundation have been established with this as one of their objectives but despite their best efforts it would appear that return expectations and risk appetite remain a significant barrier.

**Unclear communications from social investment sector**

12. For those working in the social investment market it is incumbent upon us to ensure that we clearly communicate what social investment is and isn’t for. The rhetoric referenced earlier in this response has either been reinforced by the sector, or not sufficiently challenged. It is our responsibility to make sure that we are clear about what social investment is for so that charities and social enterprises who need finance can navigate the market efficiently and understand where they can access the products and services they need. For example, we have anecdotal evidence that many charity trustees are reluctant for their organisations to take on debt. This is understandable. For those organisations for

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whom it could be beneficial to use social investment it us up to those working in the sector to do a better job of explaining the risks and the benefits in a measured and realistic way.

Recommendations

Commissioning reform

13. Social investment will not realise its potential unless public service markets work well for charities and social enterprises and commissioning is no longer such a significant barrier. Therefore the Government should:

- Reconsider strengthening the Social Value Act through legislation and implementing the recommendations in SEUK’s “Procuring for Good” in order to drive more behaviour change within procurement and commissioning.

- Consider the recommendations from the Big Society Capital and Reform report ‘The Work & Health Programme: levelling the playing field’. including minimum referral volumes and lower thresholds for parent company guarantees in order to reduce the administrative burdens of many contracts

Continued targeted capacity building

14. Capacity building funds such as the Investment & Contract Readiness Fund (ICRF), Big Potential and the Childcare Readiness Fund have provided charities and social enterprises with targeted, outcomes based capacity building in order to help them raise investment or win contracts. In the case of ICRF, £14m of grants helped charities and social enterprises win over £233m of contracts and investments. This type of targeted support has successfully matched supply with demand and the lessons of these funds should inform the design of future programmes.

Cross departmental support within Government

15. The recent move of the Office for Civil Society (OCS) from the Cabinet Office to the Department of Culture, Media & Sport (DCMS) presents a challenge, and an opportunity, for policymakers. While social investment, and how it can be used to help achieve policy outcomes, is well understood within the OCS, it is less well known, or used, in other departments. If government wants social investment to realise its potential then there needs to be greater cross departmental understanding and support for social investment. This may be harder to achieve from within DCMS than it was in the Cabinet Office but there is an opportunity to imbed how social investment can help deliver policy outcomes across an entire department.

16. In addition, many of the new ministerial team within the Department for Business, Energy and Industrial Strategy (BEIS) have experience of the social investment and social enterprise sector and understand how they can be used to help achieve policy goals.


Traditionally, social investment has not been a priority for this department but there is now an opportunity to consider how it can fit into the wider industrial strategy.

**Big Society Capital strategic review**

17. The recent arrival of a new CEO to Big Society Capital and their current strategic and stakeholder reviews provide the organisation with an excellent opportunity to re-think some of their actions and behaviours and determine how well the organisation is achieving its objectives. Some of the questions they should be considering include:

- **How long do Big Society Capital need to exist for?** How does this influence their risk and return strategy? If Big Society Capital do not need to exist forever now is the time to consider how this affects their strategy and approach.

- **Do they have the right type of money?** Big Society Capital gets its funds from English dormant bank accounts and the four main UK high street banks. Are there any restrictions on this money that are barriers to fulfilling their objectives? Furthermore, do the State Aid restrictions they face now change as a result of Brexit?

- **How should they support intermediaries?** To what extent should they be better supporting the intermediaries and advisors upon whom the current market model works? Following feedback in the stakeholder review479 there appears to be some work that could be done to improve relationships and better understand the role that some intermediaries play.

**Dormant Assets Commission to target unmet need**

18. The Dormant Assets Commission has been tasked with identifying new sources of unclaimed assets for use in the charity sector. Once this work is complete the priority for utilising these assets needs to be on meeting unmet demand, not simply replicating what has already gone before. For example, this money could be diverted towards supporting profit with purpose companies delivering high levels of impact. Alternatively, it could be used for increased subsidy where social investment is not currently meeting its target market.

**Further support for advisory based SIFIs and sector bodies**

19. The current market model is built on intermediaries working with charities and social enterprises to help them access the finance they need. However, this model is not always economical without some sort of subsidy and the cost of doing smaller deals (often the ones most in demand) can be prohibitive. Government and Big Society Capital need to determine what support they can provide to intermediaries to make the market work better.

20. In addition, sector bodies have an important role to play in understanding their members’ needs and experiences and communicating them to government and the sector to help remove some of the barriers to social investment.

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- The growth of the UK’s charity sector has led to a high number of registrations of new charities over the past few years. Many of these new charities duplicate the objectives of existing charities, leading to confusion for the general public about who to donate to. They also put a greater strain on the country’s limited funding resources. Many of these new charities do not have a track record in providing their objectives and cannot prove public benefit over any period of time. There must be some way that the government can restrict the number of charities with duplicated objectives within similar localities.
I would suggest that new charities setting up in legacy are required to be a subsidiary of an existing charity, which would ensure that there is support to the existing charity, and that the legacy retains its personal identity whilst benefitting from the expertise of the existing organisation.

- There are too many occasions where charities are inappropriately ‘flexible’ with their objectives when applying for funding. Funding availability is now so finite that many charities are branching off into work that is quite questionable with their charitable objectives. An example we experienced recently was a youth sports charity applying for funding to run a Post Natal Depression/Maternal mental health project they had developed to fit funding that had come out from Comic Relief. If charities were classified with a number of areas relating to their charitable objectives, funding streams could put out funds that were then open to particular classifications, thus limiting inappropriate use of funding, with funding going to organisations it is appropriate.

22 July 2016
1) The role and purpose of charities in civic society in England and Wales is to provide support, relief and promote all aspects of a healthy, thriving and prosperous society. In the last year this hasn’t changed in particular, but very few other organisations are doing similar work. For example, palliative care given in the home for people suffering terminal illness is unavailable through sources that are not profit making. This type of care is essential to the support of families facing a difficult time losing a loved one as it supports their grief process and keeps the family secure.

2) The sector benefits hugely from volunteering which offers a chance for individuals to grow personally and develop new skills. It benefits the sector in terms of a low-cost model of provision, saving money and promoting efficiency of funds. The disadvantages are lack of consistency/continuity on the part of the volunteer.

3) One of the challenges charities face in trying to fulfil their role in civic society is justifying their existence to those who feel their taxes should be spent on giving to civic society, rather than voluntary donations. These challenges can be overcome by promoting the benefits of charity, and the realities of why the UK government can only play a small part in supporting the needs of vulnerable people.

4) The main pressures faced by charities are that most rely on fundraising income, and smaller charities are suffering from lack of capital investment. Bigger charities with well-known brands tend to receive more donations than smaller ones. Small charities need to improve PR, but this takes investment which can be scarce and potentially high-risk.

5) Most charities embed innovation into their fundraising approaches. The bigger charities can afford time to arrange creative brainstorming sessions, take risks if these innovations fail, or take and adapt ideas from other sectors using consultants. In smaller charities this is all much harder to come by, and takes a creative approach in all aspects to work. Money and investment is needed to innovate in the digital arena. Major digital technology firms -- and the sector -- could offer more funding, promotion or pro-bono consultancy to charities.

6) Support with developing leadership and management skills in the charitable sectors seems to be much less than what appears to exist both in the private and public sectors.

7) Trustees need clear guidance on the which areas of support they should be giving to a charity. Trustees are the foundation of the organisation and should be working
more closely and collaboratively with charity staff. Trustees should be monitoring long term viability and sustainability, and be equipped to carry out due diligence and auditing where possible. Financial sustainability is a continuous issue in most charities. They cannot be overcome with a silver bullet – Trustees and staff should be working together to ensure sustainability of services.

8) Charities should aim to measure their impact as far as possible. In many cases this won’t be possible, but an assessment or feedback on the results of the charities efforts could be put in place to effectively deliver services and be assured that their work achieves successful outcomes. Commercial contracts offer a much needed income stream for a lot of charities. These contracts can often make the difference between in their sustainability and survival.

9) Social Impact Bonds seem to be attractive to donors and investors. Their delivery would require effective systems to be put in place.

10) The role of local Government should be to promote charities as providers of essential services.

11) The role of the Charity Commission is to provide clear and transparent reporting and details of charities overall performance.

12) Government needs to demonstrate accountability and an evidence-based approach to how it is fulfilling its civil society agenda.

13) In some cases, local devolution would be of benefit to local communities. Some charities have localised branches, who understand their local communities and how these differ from other areas of the country.

   In other cases, charities with a national brand need to seek funding with a consistent message. Marketing needs to factor into most situations.

5 September 2016
House of Lords – Call for Evidence

Questions

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales? How has this changed?
What makes them distinct from other organisations doing similar work?
What role can charities play in community cohesion and civic action?
How does the sector benefit from volunteering?
How has the status of volunteers changed?
What challenges do charities face in trying to fulfil their role in civic society?
How can these challenges be overcome?

As a small charity, our role is to provide “soft touch” services and opportunities for the local communities we support and we are very much at the front line. The role of charities as a whole can vary widely depending on size and locality. Many larger charities have capacity to widen their objectives so they can campaign and lobby government. Some charities provide infrastructure support for other charities and at a local level, we have seen this fall away with the CVS’s (centres for voluntary sector) especially the support functions they provide for local charities and community organisations.

Charities and community groups often do very similar work, but often such groups cannot build capacity unless they are recognised as registered charities and can be regulated to provide proper scrutiny to their supporters and benefactors. As a registered charity, we are also able to obtain gift aid on donations, tax breaks, some VAT reliefs (though not many!) and business rate relief. However, we do pay VAT on most items (which the public are often unaware of) and rent to one of our local councils on one of our family centres which is classified as a “commercial” property.

Because many small charities like us are based in the communities they serve, we believe we have a role in advocating for our families and children but not to the extent of campaigning as such. For example, we were recently involved in supporting a group of parents whose disabled children were having difficulties in getting into their local schools and having appropriate levels of support. Because of our links with local council members and professionals, we were able to engage them in some publicity with our local paper and to ensure their voice was heard.

Not all charities have opportunities to engage volunteers, but we are very fortunate to have over 100 volunteers who provide peer support for our disabled children’s activities. In 2008, we were presented with the Queen’s Award for Voluntary Service which recognises excellence in this field. We were the only charity to be given this award in that year as the judging standards were very rigorous. However, volunteering requires a significant amount
of managerial and operational support. It is not the “free” resource that many people (including some politicians!) think it is because they need high levels of support, training and management to operate effectively. There is also an additional cost with DBS checks which cost £8 for each volunteer. They also have to be covered under our liability insurance. However, we would not be able to provide the level or quality of activities that we do without them. We estimate their cost in equivalent salary terms (at national minimum wage) to be in the region of £120,000 p.a.

Our greatest challenge (which will be mentioned many times here including 2 below) is a combination of the funding required to provide expansion and meet even greater demands on our capacity while sustaining what we already have. Most of this is due to higher levels of competition for funding which is still very difficult and seems to become more demanding every year.

Without the thousands of small community charities that exist, it is quite possible that our social fabric would crumble. Without our charity, many families and children would have nowhere else to go and receive the kind of opportunities and activities that we provide at a very low cost to them. Because we can fundraise, the cost of our services can be softened and sometimes eliminated for those families who find times hard to manage financially.

We also know from feedback and evidence from evaluation that our services save statutory services thousands of pounds by preventing health problems and illness, including family breakdown, stress, depression, isolation and other mental health symptoms. The low levels of social care we provide cannot be provided through statutory services and as the benchmarks for attaining statutory support increase, so the demands on our own capacity are increasing.

Many of these pressures on our own charity could be addressed through increased opportunities for funding but our own view is that we want more independent funding and do not wish to rely on statutory funding as this blurs our role as an independent charity. We are not an extension of the state and do not wish to be. We value our independence and so do our beneficiaries. We used to be able to attract high levels of funding through trustees and foundations, but they are now under so much pressure from the collateral effects of statutory budget reductions that our success rate is now 1 in 15 compared to 1 in 4 five years ago.

There should be more incentives for private giving to small charities by individuals and companies or community groups, maybe through tax breaks. This is very difficult when large and national charities have such a high profile and much greater publicity and fundraising machine. Their fundraising costs will be so much higher than ours, but private donors seem to ignore this. Trusts and Foundations will not and usually insist that a high level of funding should reach the front line (as opposed to governance and fundraising costs).

One more challenge is our postcodes. Our main base is in Horsham West Sussex (RH12) and this is considered to be one of the wealthy areas (8% poverty) in England with a low level of
immigrant population. Although our second centre is based in Crawley with a RH11 postcode with a much higher multi-ethnic population and higher levels of poverty (about 23%) and ranked as No 157 this is still not considered as one of the most significant areas needing support compared to areas like Moss Side where poverty and deprivation levels are 41%. There is one funding trust which will only support charities in the most 50 deprived local authority areas, so we are unable to meet that criteria however much other factors like disability are factored in. We know from data gathered by Contact a Family that on average 50% of families supporting a disabled child suffers from some form of poverty. However, with increasing emphasis on location and deprivation than specific communities, we often do not conform to the criteria that many trusts and foundations now set.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?
As mentioned above, our greatest challenge as a small charity is matching resource to available funding. Within the last three years, the demands on our services – both actual and potential – have increased significantly.

There is a large collateral effect due to the reductions in local authority funding which then impact on those charities who relied significantly on this source (which we never have) but those charities in the north where deprivation and poverty is more marked are now applying to trusts and foundations whereas they never used to. Because criteria has often shifted to meet these more acute needs, we now find it very difficult now to attract funds from these sources. We have heard from some of our previous funders that they now receive over 100 applications a week compared to 10 or 20. For many trusts and foundations, because interest rates are very low, they can no longer rely on their investment income to provide grants and often have to dip into their capital to provide what grants they can.

This means that we are constantly firefighting with our fundraising to try and keep up with running costs and pay wages instead of being able to plan any fundraising campaigns. It is also quite difficult building reserves for contingencies or emergencies, since these have to come from “spare” funds which is very difficult. We often have to dip into our reserves when we have late payments from our statutory contracts! Also, if we build up too much cash in our bank account, funders will not support us as they expect us to spend those funds first, so we are on a constant cliff edge of not having too much money but having enough money in our bank account! When we apply for funds, there can be a three to six month delay with the decision, so we have to build some level of contingency should these be declined. Sometimes we receive notification from these applications. More often we hear nothing back at all.

Even funders like BBC Children in Need have now declined two of our recent applications due to massive demand for funds, which has never happened before. Fortunately, we have a very good relationship with the Regional Manager who has asked us to re-apply but to
only ask for “front line” delivery costs and strip out any administrative or back office costs to have even a remote chance of success. They managed to raise £37 million last year but received applications for £191 million.

Another example of demands for our services are requests from two of the local areas in which we work – Sutton and Worthing – to open new “Springboard House” centres due to the massive cuts in children’s centres. However, they also recognise that our service is very different from the statutory version and believe that this is a better way of delivering community support to families with very young children anyway. Despite the large reductions in these centres, local authorities have to sell them off to raise cash for their depleted budgets. There should be a greater recognition of asset transfer, but it is very difficult to get local council executives to agree when their budgets are being decimated. In addition, we would have to raise significant funds from independent sources to refurbish, refit and probably rebuild some of the fabric which is extremely difficult in the current environment.

What opportunities do charities have in the current environment?

With adversity comes opportunity and there is no lack of demand for our existing services or for us to expand. However, the greatest challenge is finding the funding, capacity and resources to match those ambitions.

With existing services, we currently have waiting lists for a number of our groups for who we provide short break activities and opportunities for disabled children. So we have the opportunity to expand some of our groups, either by setting up an additional group to take on the waiting list numbers or by locality where we do not have groups for either the younger or older children (we run a 5-12 age group and 12-18 age group).

At present we are being asked by many families to extend the age range of our teenage groups to 25 (which is the recognised extended age limit for disabled young people to access services). We can only do this by asking parents to make a full cost recovery contribution as it is extremely difficult accessing adults services funding through statutory sources. This also stretches our aims and objectives and could be seen by funders as mission drift, even though there are no charities locally who can provide a similar type of service where disabled young people can enjoy peer group activities and opportunities.

Collaboration is always talked about as a panacea for the sector in the current environment so that charities can share resources and services. However, there is still a conflict with competition as even charities that form a consortium or partnership still depend on competitive fundraising to ensure their sustainability. Our own charity is part of a “Young Crawley” consortium of 12 local small charities and community groups. We have initiated a “Family Credits” scheme whereby families who do not fit the “Trouble Families” threshold can access a range of holistic soft touch services which are heavily preventative and cost effective. The annual budget delegated by the County council’s children’s services (Early Help) was just £30,000 to support 97 families and give them a long term stable future. However, we have tried to replicate the same consortium (Young Horsham) but have been
refused any financial, support because “there is not enough money available....” which is very frustrating. It is incredible how local authorities can spend £ millions and bulk at the thought of ring fencing a few thousand pounds for a preventative set of services which could save even more. Again, this is very short term thinking - to protect budgets for high tier services when they could be prevented if the courage was there, but with voluntary sector, it is easy to say no.

Asset transfer should be another opportunity, but local authorities are so stretched with their own budgets and the reduced levels of central government grant that any “free” asset is an opportunity to sell and boost their cash position, rather than taking a longer term view where these assets, such as ex-children’s centres or care homes, can be placed in community hands and provide social profit.

Because these opportunities cannot be expressed in immediate cash terms or savings, it is easier to take a short term view. There is no incentive to do otherwise until higher tier services continue to come under greater pressure and we go back through the revolving door again.

Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

Our charity’s income is about £450,000 per annum, which places us within the ‘small charities’ category. According to the NCVO, between 2008/09 and 2012/13 small and medium-sized charities lost income from central and local government in the form of both grants and contracts. However, they increased their earned income by up to 60%, replacing some of the lost income from government, but not enough to cover the shortfall. That is certainly the case with our charity where one local authority contract we were awarded in 2010 was cut in stages by 50% by 2013.

This was despite the number of young people we were supporting rising by 40% and we were fortunate to find three independent funders to fill that gap, as many funders will not.

NCVO have also predicted a £4.6bn shortfall in annual income by 2018/19 if the sector is to simply maintain its current spending power. It also finds that many organisations have reached, or are approaching a ‘capacity crunch’ as a result of successive cuts to back office and management capacity. In combination with rising demand, these cuts are now affecting organisations’ ability to engage with even familiar sources of funding (such as trusts and foundations) and inhibiting the development of new types of income.

Within the last five years, a significant number of charities have folded, especially where they may have relied on a certain category of funding – usually from local statutory sources. This may also be because they never had the fundraising capacity or skills to find the shortfall in funds. Within that timescale, we have received closure funding from five small charities that have been unable to continue.
Charities with turnover in excess of £100m represented 0.02% of the total number registered, but receive more than 18% of all charitable income. Small charities represent 97% of the sector yet only receive only 20% of all charitable income.

**Innovation**

3. How do charities seek to innovate, particularly in the digital arena?
What more could be done to promote innovation, and by whom?
What barriers are there to being innovative?

As a small charity, innovation can often be difficult with digital resources because of available funding. We use Twitter and Facebook extensively to communicate with our stakeholders and also our website is an essential facility.

However, we need to devote staff resources to updating our website pages and social media entries as we cannot afford to outsource this function. Therefore we have to rely on what skills and time our staff can bring or learn as they go. They also have to fit these responsibilities into their existing roles and balance their workload accordingly.

It would be helpful to have specialist training in this are provided free of charge as this kind of training can be expensive with external agencies. It also needs to take account of the limited resources available, especially for a small charity.

**Governance and leadership**

4. What skills are required to lead and manage a charity?
How can these skills be gained?
What support exists to develop these skills within the charitable sector?

There is a difference between leadership and management but often these lines can get blurred in a small charity where role flexibility is key.

In my own role as CEO, I often have to drive a minibus on children’s activities and undertake DIY or IT work in our centres, but there is an expectation that everyone pitches in and do what they can when circumstances or emergencies arise.

In a small charity, leadership has to be a balance between having a long term vision that is sensible and realistic while giving a sense of optimism and purpose in usually difficult times and circumstances. It is quite easy to be buffeted by the day to day operational activities of a small charity and managing those situations. Finding the time to step aside and map out longer term goals can be quite difficult, especially when it can be difficult getting through one year to the next. With short term funding (with the exception of a few longer term grants or contracts) long term aims can sometimes seem optimistic at best and something of a fantasy at worst. In a smaller organisation, I believe it is always essential to lead from the front by setting a positive and enthusiastic tone. On the management side, being transparent and pro-active with our beneficiaries and funders is essential. Our day to day activities build and maintain our charity’s reputation but this can evaporate in hours and
minutes if our operational integrity is not maintained. Safety and fun are two of our main objectives but then there has to be a balance about acceptable risk to achieve that. This can produce a conflict but one which can be achieved based on common sense and sensible risk management.

The roles of leadership and governance have featured large in recent months with some adverse publicity about the excesses and dubious behaviour of some larger scale charities. Unfortunately, this has impacted across the whole sector but when 97% are small charities, they can often suffer more than those whose PR machinery can withstand that kind of challenge. Good leadership requires competence from both the trustees (the Chairman) and the senior management (CEO) to provide a cohesive, transparent and reliable culture.

Levels of training and support for these functions can almost be non-existent. The FSI do provide joint training days for CEO’s (or equivalent) and Chairs to have a joint training session, but it can be quite difficult when all the trustees are volunteers too and often have their own personal or employment commitments to fit in. However, these opportunities are far and few between. Very frequently, any training that small charities wish to attend which are advertised can be far too expensive, even when so called “reduced rates” are offered which can sometimes be more than £100. This is beyond the reach of most small charities when balancing training costs with pressures on front line delivery.

5. What role should trustees play in the performance and effectiveness of a charity? How can trustees be best equipped, enabled and supported to fulfil their responsibilities? What, if any, changes might this mean for current arrangements?

The role of trustees should be strategic rather than operational, although they need to be aware of the operational performance of the charity with succinct managerial updates at trustees meetings. At our charity, each trustee has a designated role which ties in with an operational facet of the charity, but only in an advisory capacity.

The trustees are all volunteers and yet they do take on a very responsible role. The two key roles are Chair and Treasurer. An effective and approachable Chair is essential to make sure there is good communication between the senior management and an empathy that permeates through to the charity’s stakeholders. The trustees need to be accessible even though they will have commitments of their own. A good Chair encourages open and inclusive discussions with the trustees and during Board meetings.

A good skilled Treasurer is also a key role. The finances of a good sound charity are essential to ensure that services are delivered and resourced appropriately. Sound financial management of a charity is the essence of its transparency. You only have to read the Charity Commission’s website to see horrendous tales of charities which have foundered due to financial mismanagement or fraud. They also need to convey the financial status of a charity to the trustees in clear and easy to understand language.

Regular trustee meetings need to have appropriate agendas which combine brief and accurate resumes of operational performance combined with opportunities to steer the
Springboard Project — Written evidence (CHA0011)

charity’s strategic direction. They should also be a useful source of networking and contribute to the charity’s resources either through fundraising opportunities or introductions to key allies and networks.

It is important that trustees are given the earliest opportunity to have a purposeful induction which gives them the information and background needed to make sound decisions and judgements about the charity. Again, this needs the discipline to focus on strategic opportunities and not let operational activities get in the way.

**Accountability**

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

What, if any, changes might this mean for current arrangements?

How should charities assess their long term viability and/or sustainability?

As well as approaching and applying to funders and donors, our most important role is one of stewardship. All funders and benefactors are thanked immediately irrespective of the size of their donation or gift. We ensure that all major funders and benefactors are updated on how their funds are spent. This is in addition to any formal reports that are requested. We also encourage our supporters to visit our centres or activities to see the staff and meet our children and families. Our charity holds an annual stakeholders event to celebrate our year when we distribute the Annual Report and have the opportunity to meet our trustees, staff and beneficiaries.

Most of the information about our accountability to stakeholders, funders and supporters is summarised in our annual report and accounts. We also have information on our website including all the activities we provide with downloads available of our reports and information.

We use social media extensively to provide information, news and updates on our charity and the majority of our funders and supporters are able to follow us and engage with us through those mediums.

For a small charity, it can be quite difficult getting our message out to the wider public, but we use local media such as radio and the press when possible. We do not have funds available to outsource any of these functions and they are undertaken by the CEO and senior managers, supported by two staff as media champions.

We are acutely aware of the bad press and drop in lack of confidence in the sector as a whole which has rebounded on us to some extent. Because we operate in a locality environment, our strengths focus on personal communication and positive messages to bring that confidence back. We do everything we can to be transparent and approachable with our stakeholders, because we know if we drop our guard our funding and support will also fall away.

Challenges to our future sustainability and viability have already been mentioned in previous sections. We know that it takes five times as much effort to attract new funders
and benefactors as it does to keep them. One of the aspects being considered in our strategic planning is how we prioritise our stakeholders and communicate with them.

It is something of a dichotomy that funders tend to support ambitious organisations rather than those just hanging on or shoring up to what they have. Therefore, we always need to be pressing on with our ambitions which can be even more challenging when existing resources are shrinking.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector? How can these challenges be overcome?
How can best practice and information be shared across the sector?
What lessons can be learnt from past mergers or dissolutions of charities?
How can charities effectively deliver services and be assured that their work achieves successful outcomes?
What are the benefits and challenges of funding for charities being derived from commercial contracts?

The current fundraising climate for small charities like ours is extremely challenging at the present time. The recent “Brexit” decision will cause even more uncertainty to our country’s economic circumstances. It is nearly eight years since the start of the current economic recession and still there seems to be no light at the end of the tunnel. Local authority funding and budgets are constantly being squeezed and although this does not always have a direct impact – as we have a broad range of non-statutory funding – the collateral effect is enormous.

As previously mentioned, many charities in urban areas, especially the north of England, have previously relied on statutory funding to support their activities. That funding has significantly diminished since 2010 when policies associated with “austerity” first started. Those charities are now competing against us for independently sourced funds, especially grants from trusts and foundations, whereas before that was not the case. Because these urban areas suffer more predominantly from high levels of deprivation and poverty, they have a bigger competitive advantage over localities such as ours which are considered to be wealthier. However, this discriminates against some communities of interest such as families with a disabled child who suffers from levels of poverty up to 50% wherever they live. Disability does not have a postcode, yet funders who are under great pressure and receiving hundreds of applications every month are more likely to “score” these types of wider criteria more highly and give them greater preference.

The current free training which is offered by The FSI (www.thefsi.org.uk) has been invaluable in skilling up small charities including ours. It was rather ironic that this skills deficit was picked up in the Chancellor’s budget two years ago despite the fact that the FSI training had been operational for four years already and funded through their fundraising resources. The FSI have now been awarded joint training funding with the Small Charities...
Coalition. The DCLG have recently announced a “Local Charity Day” although the FSI have been running “Small Charities Week” now for six years. It seems to government is always running to keep up announcing its own initiatives when the sector has already been arranging similar programmes without any government support or funding!

The sector is very diverse with 160,000 registered in England & Wales, so a cohesive plan for sharing best practice and communicating successes and failures could be difficult to roll out. Some of that could be achieved through peer groups either locally or by interest group but that needs to be resourced properly. The local CVS’s or organisations like The FSI have a role they can play there. The Charity Commission does have a page with some horrific scare stories but I doubt if that forms part of everyday reading.

To be successful and attract a continuous level of support, charities should have effective monitoring and evaluation practices and mechanisms. Our charity has evolved several methods including surveys, session feedback and outcome stars. Our biggest problem has been finding an easy way of compiling and investigating this data and we have had to invest £3,000 in a new cloud based database. But this has also involved our staff in significant levels of work by developing templates for the database and entering past data. We have also had to ensure we roll out appropriate training and set up sound IT security. This has taken a lot of time and effort but eventually we are seeing the results that prove and underpin our efforts, but again this has required significant time and investment which has taken us away from front line delivery.

We currently have two funding streams based on statutory contracts which are now referred to as “Framework Agreements”. One is based on a “pay as you go” system where personal budget payments are allocated for certain disabled children’s activities and invoiced on a monthly basis. The other arrangement is more like a block contract where we receive quarterly payments based on an agreed level of outputs, although we had to ask for these to be reduced when our budget request was cut by 20%, leaving us to fill the shortfall.

If given the choice, my own preference as a small charity CEO would be to take statutory funding completely out of our income streams. The levels of bureaucracy and reporting involved are usually disproportionate and this income can become unreliable, especially if the local authority suffers unexpected budget cuts. This happened with a previous contract of ours which was cut by 50% two years into a five year agreement without any warning. It would have been impossible and futile – as well as very costly – to try and challenge that decision. Statutory funding could also impede our independence to some extent.

There have already been situations where government ministers complain if a charity funded through central or local government sources has the right to challenge its policies, legislature or practices. Of course it is the duty of any charity - as an independent organisation - to represent and advocate on behalf of its beneficiaries if they feel that changes should be made to policy, law or statutory agency practices. By being over reliant on statutory funding this can inhibit those motives and the voice of the people it represents. Also, if a charity receives over 50% of its funding from the statutory sector, is it really a charity at all or just an extension of the state?
Social impact bonds also come under this heading and are covered in (8) below.

Social investment

8. What is the potential of social investment and social impact bonds?
What are barriers to fulfilling their potential?
Although social impact bonds (SIB’s) seem to be the fashion statement of the day by the government and its golden bullet to have charities involved with delivering front line services, but they are simply not appropriate for small charities. They are usually based on a “payments by results” arrangement and require a very large upfront investment to cover the inevitable delay in payments and the random level of incentive rewards.

The levels of SIB’s issued so far are far out of the reach for the 97% of small charities making up the sector. For example, two recent SIB’s were valued at an impossibly high level:

The Youth Engagement Fund will fund 4 new SIBs, supporting up to 8,000 disadvantaged young people to improve educational qualifications and secure employment. The YEF aims to find new ways to address the challenges facing disadvantaged young people. It includes £10 million from the Cabinet Office, £5 million from the Department of Work and Pensions and £1 million from the Ministry of Justice.

The Social Outcomes Fund will provide £2.5 million to support 3 additional SIBs to help people with long term health conditions, mental illness and children in care. The Cabinet Office set up the £20 million Social Outcomes Fund to provide a ‘top-up’ contribution to outcomes based commissions (social impact bonds or payment by results) that aim to deal with complex and expensive social issues.

How small charities are expected to become involved in this mega £million type of arrangement is impossible to contemplate. It is noteworthy that the awards for these SIB’s were made to large limited companies and a law firm. None were to registered charities.

Invariably, other forms of social investment are in the form of loans or venture capital that need repayment. Not all charities can do this as they work with vulnerable beneficiaries who have low incomes or assets and the organisation may not have a trading function. Trustees are rightly wary of taking on debt, which could spell the end for a charity if it fails to make its repayments.

There was an “Access Fund” recently launched for smaller charities but options are very limited. As the information says: As the Growth Fund will be delivered through social investors, social enterprises and charities must apply to social investors to secure Growth Fund support, not directly to Access”.

Where and how small charities are supposed to apply to “social investors” is a complete mystery!

The role of the Government

9. What should the role of Government be with the sector?
What should be the role of local Government?
What should be the role of the Charity Commission?
Have these relationships changed? If so, how?
How should Government (national or local) focus its resource to deliver its civil society agenda?
What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?
What are the opportunities and challenges associated with local devolution?
Lessons from other sectors and countries

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

12 August 2016
About St Ann’s Hospice

1. St Ann’s Hospice is one of the UK’s oldest adult hospices, caring for thousands of people with life-limiting illnesses every year. The hospice provides a free service to patients, carers and their loved ones from three sites in Greater Manchester, and includes inpatients, day therapy and community services which support people in their own homes.

2. The hospice is a charity which receives just over a third of its funding from the NHS. The rest of the income required to provide our care is raised from charitable donations and totals £16,000 every day.

3. Hospices provide health and social care in partnership with the state and are uniquely placed among health and social care providers in contributing to both the funding and provision of end of life care in the UK.

About this response

1. This response draws on the experience of St Ann’s as a charity operating in Greater Manchester. We have limited our comments to those issues on which we are placed to contribute.

Summary

1. Hospices work with many stakeholders and, being dependent on the generous support of the local communities we serve, are committed to ensuring our high standards in service provision, fundraising and overall governance are maintained. In summary we believe:

- Charities themselves must take responsibility for ensuring their own high standards of fundraising. (Paragraph 4.1.3)
- Volunteers have become increasingly important to the sector. (Paragraph 4.2.2)
- The number of charities operating in the UK continues to grow and as a result fundraising has become increasingly difficult for many sectors, and within many communities. (Paragraph 4.3.1)
- The devolution of health and social care budgets in parts of the UK brings its own set of unique challenges for charities in that sector, such as hospices (Paragraph 4.3.2)
- Financial uncertainty around state funding is an issue which affects business planning of charities. The level of funding received by hospices from CCGs across the UK – and even within regions – varies significantly, leading to difficulties in managing and strategising future plans. (Paragraph 4.3.3)
To achieve their aims, charities must work more collaboratively to ensure resources and provisions are successfully meeting their core needs. (Paragraph 4.3.4)

An uncertain political or economic landscape brings with it new challenges, both for income generation, and also for commissioning from - or engagement with - public bodies. (Paragraph 4.3.5)

Leaders of modern charities are running increasingly complex businesses and are therefore required to demonstrate a broader than ever skill-base. (Paragraph 5.1.1)

Charities have increasingly complex staffing requirements, and the management of volunteers also brings with it a unique set of challenges. (Paragraph 5.1.2)

A fast-paced, ever-changing digital and media landscape also brings about both challenges and opportunities, and it can be difficult for smaller charities to be heard alongside bigger organisations with larger budgets. (Paragraph 5.1.4)

Robust dialogue with key stakeholders is a vital part of a charity’s responsibility. (Paragraph 6.1.2)

Uncertainty is difficult to navigate. Negative publicity around unscrupulous fundraising techniques used by a small number of large charities, alongside the accompanying uncertainty into the future of fundraising regulations, has left a difficult landscape for charities to operate in. (Paragraph 6.1.3)

We welcome more robust fundraising regulations which hold charities to account, but it is important that any changes to these regulations take into account smaller, complex charities such as hospices. (Paragraph 6.1.4)

4. The purpose of charities

4.1 How has the role and purpose of charities in civic society in England and Wales changed?

4.1.1 As greater demands are made on the public purse, charities are increasingly relied upon to provide resources which would otherwise be funded by the state. For example, as a hospice, we provide invaluable health and social care to thousands of people who would otherwise remain in hospitals or in other NHS settings that do not fully meet their personal requirements. Our patients receive specialist, holistic care, tailored to their individual needs and provided in their chosen environment, empowering them to make decisions about their care at a time which – for many – is one of the most vulnerable in their lives. Much-needed support is also given to their carers.

4.1.2 Charities are increasingly working in collaboration to achieve their purposes, ensuring limited funding and resources are used as efficiently as possible.

4.1.3 Charities – rightly - also have a greater responsibility than ever to ensure they are transparent about how funds are raised and how donations are spent. For example, as a hospice we are committed to complying with all relevant fundraising guidelines and codes, and have our own fundraising ethics statement which promises to always
be fair, open and transparent with our supporters so they can be confident we are using their generous donations in an appropriate manner. We believe that charities themselves must take responsibility for ensuring that standards of fundraising are maintained and be held accountable if they are not.

4.2 How does the sector benefit from volunteering?

4.2.2 Volunteers are enormously important to the sector. For example, St Ann’s employs approximately 350 members of paid staff and 800 volunteers. The hospice sector could not continue to care for patients without the support of this incredible group of people giving their time voluntarily.

4.2.3 The profile of volunteers has changed significantly in recent years, with a wider than ever cross-section of people from the local community choosing to support charities in this way. Younger volunteers such as students are increasing in numbers, as are corporate supporters willing to donate their time, volunteering to aid their continuous personal development. As a result the management of volunteers has also become more complex. Charities, including St Ann’s, spend an increasing amount of time and resources investing in the training and development of their voluntary workforce to ensure volunteers are fulfilled in their role and dealt with fairly and appropriately.

4.3 What challenges do charities face in trying to fulfil their role in civic society?

4.3.1 The number of charities operating in the UK continues to grow and as a result fundraising has become increasingly difficult for many sectors. Local hospices such as St Ann’s depend on the generosity of neighbouring communities to enable charitable activities to continue and as a result ensuring trust and confidence from the public is vital. Complaints about hospice care and fundraising are very low and we are always very mindful that our excellent care delivery and reputation are upheld.

4.3.2 As a charity operating in the health and social care sector in Greater Manchester, the devolution of healthcare budgets brings with it its own challenges. It is vital that charities are given a voice in discussions around these devolved budgets as the part played by the third sector in the provision of health and social care in the region is significant.

4.3.3 In the hospice sector, the level of funding received from CCGs for end of life and palliative care varies considerably across the UK, despite the Government’s commitment to introducing a new funding system. There is also a lack of consistency in the requirements and objectives of different CCGs. For example, St Ann’s is commissioned to provide services for nine CCGs, each with their own set of systems and processes, which leads to significant additional burdens – both financial and logistical – in order to ensure those needs are met.
4.3.4 To achieve their aims, charities must also increasingly work more collaboratively to ensure resources and provisions are successfully meeting their core needs. The hospice sector works in partnership with many other organisations in the delivery of care, including CCGs, local businesses, other healthcare providers and voluntary groups.

4.3.5 An uncertain political or economic landscape also brings with it new challenges, both for income generation, and also for commissioning from or engagement with public bodies. For example, as stated above, we work with nine different CCGs across Greater Manchester, and as a charity receiving approximately a third of its income from the NHS, it becomes increasingly difficult to model and deliver our future business strategies when commissioning or NHS funding uncertainties arise.

5. Governance and Leadership

5.1 What skills are required to lead and manage a charity?

5.1.1 Leaders of modern charities are running increasingly complex businesses and are therefore required to demonstrate a broader than ever skill-base. For example, St Ann’s Hospice is a multi-million pound organisation in the health and social care sector, with three sites, community workers and a trading company operating fourteen shops and a lottery.

5.1.2 Charities have increasingly complex staffing requirements, and the management of volunteers also brings with it a unique set of challenges.

5.1.3 In line with commercial sector colleagues, leaders of charities have to be more resilient and resourceful than ever, and be able to stand out and engage with service users and supporters in an increasingly competitive marketplace.

5.1.4 A fast-paced, ever-changing digital and media landscape also brings about both challenges and opportunities, and it can be difficult for smaller charities to be heard alongside bigger organisations with large budgets.

5.1.5 Training courses and conferences for personnel working in charities are relatively limited, and often costly or London-centric, so any additional investment in support of greater levels of training and development for charity professionals would be beneficial to the sector.

6. Accountability

6.1 How can charities ensure that they are properly accountable to their beneficiaries, their donors and the general public?

6.1.1 Charities must take greater responsibility for ensuring they are being transparent and honest with all of their key stakeholders.
6.1.2 Robust processes and procedures to ensure meaningful dialogue with these stakeholders is a vital part of a charity’s responsibility. For example, as a charity operating in the health and social care sector, St Ann’s always operates in an open and transparent manner, inviting feedback and comments from patients, carers, visitors, health professionals and supporters and ensures action plans are put in place to respond to any issues raised in a timely manner.

6.1.3 Negative publicity around unscrupulous fundraising techniques used by a small number of large charities, alongside the accompanying uncertainty into the future of fundraising regulations has left a difficult landscape for charities to operate in. At St Ann’s we are proud that we are transparent with all of our donors in terms of how their support impacts the lives of local people, and will follow any recommendations closely to ensure we continue to nurture the valued relationship we have with the people who generously donate the £16,000 a day we need to keep our hospice sites open.

6.1.4 It is important that any changes to fundraising regulations take into account smaller, complex charities such as hospices. Hospices have an extremely loyal army of supporters who enable us to provide care to our patients, but any changes which would make it difficult for us to communicate effectively with those loyal supporters could potentially impact our overall income – and as a result the funding we have at our disposal to continue providing health and social care to thousands of people from across Greater Manchester.

6.1.5 Social media is an increasingly powerful tool to communicate and share important information with supporters. Organisations can be held accountable in these very public platforms, and it’s important that charities – even very small ones – have the necessary skillset in their workforce to properly manage and respond to stakeholders in this forum.

28 September 2016
“The work of the St Petrock’s Centre is plainly seen as a ‘life-line’ to many, if not the majority of the people who use its services, and without its continued presence in Exeter a great many lives will deteriorate or be lost.”
Dr R Hawker – A Review of Service Delivery 2012

The current challenges to the financial sustainability of charities

St Petrock’s (Exeter) Ltd
HMP Accommodation Advice Service
Finding suitable housing for prisoners on release lays a foundation for every other part of offender resettlement, and is the cornerstone for beginning a life free from crime. Prisoners who have housing arranged on release will find it easier to engage with drug rehabilitation and offending behaviour programmes, and to take up work and training opportunities. Research has found that stable accommodation can help reduce reoffending rates by up to 40%. (Pro Bono Economics St. Giles trust's through the gates. an analysis of economic impact, p.15. published, 2010).

St Petrock’s developed the Housing Advice Service at HMP Exeter in 2003 in response to the increasing numbers of prisoners released as NFA (No Fixed Abode) arriving at their centre in Exeter. The service was independently funded for the first 12 months of the project and quickly gained a reputation for high outcomes, effectiveness and value for money. The service was then funded by NOMs/HMP Exeter until 2015. Additional funding was provided from St Petrock’s and the local authority to support a 56 hour per week service.

The Housing Advice Service at HMP Exeter supported offenders who were likely to be released with No Fixed Abode (NFA). The team worked proactively with landlords and Housing Benefit Teams to help prisoners maintain tenancies that had been put at risk by their custodial sentences. For others, personalized support was offered to secure new accommodation prior to release. Key services provided included making referrals to supported accommodation providers, hostels and recovery projects; helping clients to register on local housing lists; providing advice on accessing private rented accommodation and signposting clients to other support agencies. The team also provided advice to colleagues in the prison and to other agencies working with ex-offenders in the community. 2014/15 brought significant national changes to the way in which offenders were managed, as part of the government’s Transforming Rehabilitation programme. The reforms led to the creation of a single National Probation Service (responsible for the management of high-risk offenders) and 21 newly-formed Community Rehabilitation Companies (crcs), responsible for the management of low to medium risk offenders in their Contract Package Area. Under the new management of Dorset, Devon and Cornwall CRC, HMP Exeter was designated a
'resettlement prison' from April 2015 meaning that short-sentenced prisoners with a local connection would serve most or all of their sentences in HMP Exeter; longer sentenced prisoners from the Exeter area would spend a minimum of 3 months there prior to release.

Amidst these major structural changes and despite uncertainties over the future of the service, St. Petrock's Housing Advice Team continued to exceed all key performance targets; they consistently secured accommodation for between 82% – 92% of prisoners on release, against a target of 80%. In 2015/16, The service worked with over 1340 individuals, providing accommodation on release to over 750.

Changes in Funding Structure resulting from Transforming Rehabilitation

From 2004 onwards St Petrock’s received annual contracts for the HMP Exeter service from NOMs/HMP Exeter (£33,000). The service also received funding from Exeter City Council (£15,000) and a significant contribution from St Petrock’s. The funding from NOMs/HMP Exeter ended 31 May 2015 when the new contractor (C1) won the contract for the Dorset, Devon and Cornwall CRC. Although St Petrock’s and HMP Exeter had been in regular communication, over an extensive period, supplying significant data, contract and delivery information with the new contractor (C1), no efforts were made to develop a partnership approach and there was no recognition of the impact on the loss of the St Petrock’s service. At the end of March 2015, following a meeting with C1 initiated by St Petrock’s, the contract was renewed for 6-months. A further 6-month contract then followed with notice to end the contract provided in January 2016. HMP Exeter were concerned about the imminent loss of the service, did not consider that the resettlement service (including an accommodation workshop) operated by Contractor 2 (C2) inside the prison would be able to replicate the service/sustain the outcomes and made representations regionally and nationally to support the continuation of the service. Additional funding was then identified for a further 6 month contract. The CRC did not contribute to this funding. St Petrock’s providing a larger contribution were the lead funder.

On 5th May 2016, the ‘Through the gate’ Lead and Strategic Lead for the CRC covering Bristol, Wales, Gloucester, Dorset, Devon and Cornwall called a meeting with C2 and St Petrock’s to discuss the future of the accommodation service provided by St Petrock’s. C1/CRC stated they would not fund St Petrock’s service at any point in the future; that the service fell within C2’s resettlement remit and concerns about ‘double funding”. St Petrock’s advised that it was unviable to operate services on 6 month contracts, in particular, the difficulties of providing staff security and recruiting new staff with security clearance taking up to 3 months. It would also be unlikely to raise funds from trusts and foundations as they consider ‘accommodating people on release from prison’ to be a statutory duty. C2 provided reassurance that they were experienced and able to provide the service. Following the meeting St Petrock’s lost a newly recruited staff member and consequently made the
decision to withdraw the housing service. St Petrock’s did not feel they could operate the service at their usual high standard for the remaining 4 months of the contracts with local authorities. Notice of 1 month was provided and a meeting arranged the following week to discuss the exit strategy. C2 was consulted with regards to TUPE arrangements on the remaining member of staff. St Petrock’s sought legal advice that agreed that the member of staff should have a right to a TUPE transfer. C2 did not accept TUPE arrangements, they considered the service to be a ‘specialist, intensive case management’ service. Shortly after they recruited this member of staff into their resettlement service at HMP Exeter.

The TR tendering process failed to provide contextualized solutions that leveraged local knowledge and failed to support the efforts of local partners to enhance/develop local capabilities. Recipients of our service have been effected by a significant reduction in service provision, a traditional ‘one size fits all’ mind-set and loss of a flexible, specialist local response.

As a small organisation we were effected by the changes in contracts in a number of ways:

- We were unable to tender for the TR contract area/service as it was too large and covered areas beyond our reach.
- Despite assurances to the contrary, there were no opportunities for sub-contracting or developing/delivering shared systems / approaches
- With limiting short-term 6-month contracts we were unable to provide competitive conditions for staff, although our normal salary range and term and conditions are more favourable and we have an excellent record of high staff retention rates.
- The refusal of the new contractor to take on our member of staff resulted in additional (redundancy) costs for the organisation and loss of rights and terms and conditions for the employee who went on to be employed by the new contractor.
- An established service that was innovated by a small highly effective organisation was lost in addition to the additional investment provided by the charity and local partners.
- Increasing numbers are now being released from HMP Exeter with no accommodation support - reported by local authorities and homeless agencies.

“2014/15 has been a challenging year, faced with an increased churn of population and changes to structure and operations. Despite these changes St. Petrock’s have continued to deliver a high standard of services to our prisoners, providing support not just local to Exeter but using their network of contacts to provide support and referrals across the South West. Partnership working is at the heart of what St. Petrock’s deliver, and their example has been used time and again as a template as we move forward to a new Resettlement Agenda.”  Tom McCruden, Head of Offender Management Unit (OMU) at HMP Exeter.

"The availability of informed advice, delivered through skilled practitioners, to provide effective and sustainable accommodation solutions to offenders - especially short term
"revolving door" prisoners received into local prisons whose needs are complex and acute – is an important element of rehabilitation interventions in custody and through the gate. The service delivered by St Petrock's staff at HMP Exeter provides significant assurance to NOMS custodial commissioners and I am certain is a valued asset within the prison’s portfolio of resettlement services”.

Rob Fenwick, Custodial Commissioning Manager

HMP Exeter Accommodation Service Stats 2015/16

Local Connection Data 1 April 2015 to 31 March 2016
Total caseload 1326

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%NFA Status prior to custody

%NFA PRIOR TO CUSTODY
Overview of our work

St Petrock’s is a small, Exeter-based charity, which helps local people who are homeless or vulnerably housed to move forwards into healthier and more fulfilling lives.

Why we exist

Exeter has had a high homeless population since the early 1990s. The city serves a large rural area and there is increasing migration from people seeking assistance, housing and employment from within the southwest region.

St Petrock’s monitoring statistics show that over 1600 people face homelessness and multiple disadvantages in Exeter and the surrounding area each year. If people are not assisted quickly they face increasing social isolation, deteriorating physical and mental
health and risk becoming involved in substance misuse, offending, problematic street activity and entrenchment.

St Petrock’s vision is for a city without homelessness, with good health, housing and inclusion – a city where everyone enjoys the benefits of security, opportunity and growth. We work to:

- Prevent homelessness occurring in the first place.
- Increase access to housing and help individuals to successfully maintain a tenancy.
- Improve the health, well-being and life expectancy of our clients.
- Enable access to training, volunteering and employment opportunities.
- Reduce re-offending and provide positive contributions to communities.

Who we work with

Our primary beneficiaries are people who are:
- Currently rough sleeping on the streets
- Vulnerably housed (i.e. – their accommodation does not meet basic health and safety standards)
- Living in temporary accommodation on friends’ sofas or floors
- Struggling to maintain their tenancies or are at risk of eviction
- Isolated from support networks, family and friends
- Coping with a mental health or emotional problem
- Living with a drug, alcohol or gambling addiction

What we do

St Petrock’s is committed to being a local, innovative, highly effective organisation that helps to transform the lives of people who are homeless or at risk of homelessness and supports them in achieving their potential. By working closely with partners in the voluntary, statutory and private sectors, we provide a range of emergency, support and prevention services, which are accessible, flexible and able to respond rapidly to people in crisis. These include:

Basic survival services for rough sleepers
Housing advice and referral
On-site health and support services
Specialist welfare advice
A private rental & support scheme
Tenancy training
Meaningful occupation
Crisis intervention services
Resettlement work with ex-offenders

Our Funding Context

St Petrock’s receives little statutory funding and is reliant on the support of a range of trusts and foundations, alongside the generosity of the local community, in order to operate. As several of our existing trust funding periods are drawing to a close, we are looking to diversify our funding sources in order to secure the future of our core frontline drop-in services.

Overall Income for St Petrock’s in 2014-15

£464,996
TOTAL INCOME FOR 2014.15.

SOURCES OF INCOME
32% Local Community Donations
31% Trusts and Foundations
15% The Big Lottery
8% HMP Exeter
6% Exeter City Council
6% Devon County Council and other Statutory Bodies
2% Activities generating Funds and Investments

15 August 2016
Mr Paul Stallard — Written evidence (CHA0049)

Introduction

For the past 5-years I have been the Independent Chair of the Public Fundraising Association (PFA).

On 31st August 2016 and in accord with one of the recommendations in Sir Stuart Etherington’s September 2015 ‘Review of fundraising self-regulation’, the PFA completed its merger with the Institute of Fundraising (IOF). My role at the PFA is therefore complete save overseeing the satisfactory winding down of the company by 31st December 2016.

Consequently, although I also have more than 20-years experience of working with charities on a private basis – as a trustee and volunteer - I make this submission as an independent observer who has very recent firsthand high-level experience of the sector. Consequently, I am very close to all the issues that are giving cause for concern and by way of contrast I also have considerable knowledge and C-level experience of other sectors in the economy most notably global wealth management.

Personal Background

My professional life, spanning some 42-years has been spent in global banking and wealth management. For much of this time I was an executive director of some major companies but for the past 12-years I have been Chief Executive Officer of my own consultancy practice providing advice and guidance to such companies, in the UK and overseas, regarding transformational business strategies and business improvement services. As formal retirement beckons I shall remain a Trustee of 2 perhaps 3 UK charities.

Hopefully, one or more of the following observations particularly by way of comparison with my professional life and for example gleaned from my experiences as Chair of the PFA will be of assistance as you deliberate the issues detailed in the focus of your inquiry.

I should point out that whilst I shall be very happy to contribute in greater detail, supplying more granular analysis, the purpose of this submission is to focus on what are the key fundamental issues facing the sector. My contribution derives from the evidence I have seen during the last 5 years as the Independent Chair of an organisation at the centre of many of the events that have led to the establishment of the Select Committee.

Focus of the Select Committee

Notwithstanding the issues stated in the ‘Call for Evidence’ there can only be one focus for consideration and that focus is the same for all organisations, companies and political parties – ‘is the charity sector doing all that it can to protect the interests of those who benefit from and who donate money to their various causes?” In other words everything that is done in the charity sector should be about the end result i.e. the benefit derived by customers be they donors or beneficiaries.
The only reason the Select Committee has been called to gather evidence about the sector is because media coverage of recent events has caused the British public to complain and continue to complain about the behaviour of some charities.

Let there be no doubt – by whatever route and from whichever source money reaches charities in support of their aims, the money belongs to the citizens of the United Kingdom and they give it willingly and freely, without conditions so other people can benefit. Charities are accountable to the people who give them money and those who receive benefit from its consumption. The conclusion of any inquiry in this sector should be couched in terms that address what is right for donors and beneficiaries; charities, other organisations and their employees are simply the means by which ‘what is right’ is brought about.

Pressures and opportunities

My experience of working with many charities both privately and more formally leads me to believe they are in the main very responsible and accountable. However, much of what has and continues to give cause for concern and which has created the recent ‘high profile events’ is more to do with the inability of some to cope with the ever increasing size and scale of their operations.

The Charity Commission reports annual gross income for charities increased by 293% in the 17-years from 1999 – 2015. The question is how successfully have charities managed such growth? The increasing levels of complexity and exacting demands made upon their organisations and skills of their employees and volunteers to cope has created huge pressures upon all organisations but its effect is most obviously seen with the larger ones. That some Fundraising Directors of very large charities dropped the ball when it came to the employment of some questionable fundraising agency practices there is no doubt. They would not employ poor companies or allow poor practices out of choice but they were obviously so busy keeping many other balls in the air they paid the inevitable price by way of shockingly negative media coverage and subsequent damage to their brand and income.

Beyond the big ones there exist a myriad of charities of differing sizes and many of those, including where I am Trustee, are seriously challenged in one way or another. As if the march of time and the continued growth in demand for their services is not enough so much is expected of charities today by government, the public they serve, the people they employ, the donors they rely on and the beneficiaries who rely on them. Yet, when speaking to them it is clear the problem for most is deciding exactly what to do and how to prioritise their resources.

Previously when sectors of the economy (e.g. banking, the law, medicine) undergo exponential growth and problems of the kind the Committee are exploring, the eventual solution is a more robust regulatory regime sufficient to ensure adherence to certain standards of behaviour. Strict regulatory regimes bring about certainty. Certainty brings about behaviour changes and improves some aspects of leadership behaviour. There is no doubt what a charity has to do, how to do it and when. As the UK banks will attest this at least brings a new norm and from that norm the organisation can more effectively cope, plan for and achieve growth. The problem with the banks was after the new regulatory regime was put in place no-one, neither the banks nor the regulator nor the government
knew how to curb their growth especially via extremely complicated financial instruments that only a few could understand.

**Innovation**

Creating strategies and plans for any organisation is all about what is going to happen in the future. In my business I know what I do for a client now will not happen until 6 – 12 months time. With this knowledge and experience in mind, my concern for the future of the third sector rests in its current inability to cope with the ever increasing tide of technology. A top 5 charity main board director confided in me recently that they are looking to use more technology as an alternative source of fundraising but no one in the organisation understands it.

Of course, understanding technology is one thing but then managing its transformation throughout the organisation, getting everyone on-side is a whole different thing and requires additional levels of skill and knowledge.

This problem is further illustrated by the pending EU General Data Protection Regulation (GDPR) because the only possible means of any organisation coping with what GDPR requires is by the employment of technology even in its most basic form. I do not know of one charity that is sufficiently prepared for this legislation which comes into effect in 2018.

There are different attempts to address this issue in the sector but to avoid numerous charities falling foul of the new regulation requires a degree of co-ordination and co-operation that simply is not evident

**Governance and leadership**

There are many excellent leaders employed in the Third Sector and there are many very, very poor ones. The reasons for this are many and legend e.g. people and organisations overtaken by events where rapid growth finds many leaders lost in a world that no longer exists – they cling onto the status quo doing everything they can to resist change because it is uncomfortable, they fear they will be tested and they do not know what to do.

The reason this situation exists is largely down to two issues. Firstly, the light-touch management and oversight style of many charity boards where Trustees are not blessed with the knowledge or skills required of an organisation that has grown quickly and out of all proportion from that which existed only a short while ago. Secondly, poor management performance has been allowed to exist almost by default because there is an absence of strict rules and regulations that by themselves demand an acceptable standard of behaviour. Strong rules and regulations behove good management, good managers do not necessarily make great leaders but they create better leadership.

At a rough count there are some 30 representative bodies in the Third Sector each looking after the interests of one group, body or aspect of what makes the sector tick. Representation like this is a good thing but considerable amounts of time and money are taken up in meetings and conferences representing one cause or another. Good leadership in the sector would ensure a welcome degree of consolidation that will make for a far more efficient and hopefully professional representative process.
The other effect of there being so many representative bodies is that their respective output keeps third sector media in business. Almost every time the Chair or CEO of this or that body says anything it is reported in the sector press. The further effect of this is that there often seems to be a war of words, accusations or arguments among such representatives and it is not unusual to hear unsavoury personal comments and vendettas being played out. At this point we remember – whose money are we handling here and why?

It is clear there is not one person to whom everyone of the 830,000 people employed in the sector see as representing their industry. However, leadership is not just important to those employed in the sector – it is also important to those people who give the sector the money it needs to operate. People in the sector understand the difference between the CEO at the Charity Commission, NCVO, CFG or ACEVO but when the public here someone speak from the sector they just hear ‘Charities’ speaking. So, consumers, donors and charity supporters cannot be blamed for thinking ill of charities.

In the absence of the sector being able to sort itself out in this regard by electing or allowing one person to speak for the whole sector, the Government may wish to consider appointing someone to do it on their behalf – for a example a Charity tsar someone who has no one’s interest at heart but the public being the very people who provide the fuel for charities to operate.

**Accountability**

Today big charities are really no different from very large corporations. Their annual turnover, scale of operations, management teams, reporting lines and processes are very much like those of large quoted businesses. Yet, they are not subjected to the same level of scrutiny, reporting and accountability.

Many charities have weak boards peopled by very well intentioned individuals who are either inexperienced or ill-equipped (or both) to cope with overseeing large organisations.

Charities have no investors or shareholders to answer to; they have no profit incentive and a less than transparent reporting process such that allows what happened to ‘Kids Company’. Moreover, they have no-one breathing down their neck (for example, a highly active regulator) making sure they behave appropriately and economically.

In the commercial world the accountability for every size and type of limited company rests with the board of directors. They are appointed to manage the day-to-day business activities and finances and to ensure all statutory filing obligations are met. Directors must act lawfully and honestly and make decisions for the benefit of the Company, its customers and employees. Using their skills, experience and judgment, directors must try to make the company a success by promoting and achieving its business objectives. In addition and above all such Directors are accountable to the Company’s investor and shareholders.

Whilst in the third sector Trustees have broadly the same responsibilities they are not tested in any way and they are certainly not accountable to anyone except a terribly under resourced Charity Commission and then only at the very highest level of financial probity.

The sector is forever complaining about the shortage of people willing to act as Trustees on charity boards. However, being a Trustee brings with it many responsibilities and potential
liabilities that put people off especially when they discover Trustees are not paid. Many in the sector will not like this but the only method of improving the number, quality and contribution of Trustees is to pay them an annual fee.

**Resource management**

How charities manage and spend money that comes from the public is not really put under close scrutiny. Firsthand experience shows that managing resources more efficiently and effectively presents the largest opportunity to the third sector in a generation to swell their cash reserves. What we in the commercial world take to be a given requirement of every manager simply does not exist in many large and small charities. Perhaps audit firms should be charged with the responsibility of testing charities in this regard and when found wanting they should be reported to the Charity Commission. Of course, when such testing finds insufficient evidence of due care and attention in the use of resources, charities directly reliant on the public purse should have their funding curtailed if not suspended.

**Social investment**

If managing existing resources more efficiently and effectively represents the primary short-term opportunity to swell charity cash reserves the use of social investment and other new technologically driven methods of raising money present the second best opportunity.

This whole issue should be subject to a government and/or commercial sponsored research project that aims to study, investigate and report upon finding new methods of technology led fundraising models. Medium and small sized charities simply do not have the money to invest into researching new methods of fundraising.

**The role of government**

Given the charity journey so far and the ever increasing pace of change, central government should deal with charities as they deal with other sectors throughout the UK e.g. via the law and via strong regulation.

**Lessons from other sectors**

Much of the reason for setting up the Select Committee will be rendered void if there were a single regulator for all charities and all charity activity. This means all charity activity including the current attempt to prove self-regulation should be driven through the Charity Commission. Currently self-regulation is being given a chance to work. If it does not work the government has said it will pass primary legislation to achieve the same ends.

For all the reasons mentioned above, because of what we have seen happen in the past few years, because charities are so important to our rich and diverse society and because charities are funded by money given freely by the public - I would favour primary legislation now.

*2 September 2016*
Summary

SurvivorsUK is a unique small independent national charity which offers services nationwide and specialises in adult male survivors of rape and sexual abuse with thirty years’ experience of undertaking this work. It has a permanent staff of 5, 18 sessional professional workers (counsellors and those staffing the webchat) and a turnover of less than £0.5m. It is regarded as the principal supplier of information and emotional support to male survivors by the Ministry of Justice which funds its website and the services of a male Independent Sexual Violence Advisor (many clients want the support of a male). Such funding represents about half total income, the rest coming from charitable trusts and foundations such as Comic Relief, Trust for London, Henry Smith Charity and City Bridge Trust.

Specialism is an essential part of providing quality services in a meaningful way. In the field of therapy for male sexual abuse short term interventions (especially if they are of the wrong sort) can do more harm than good and can leave a survivor rudderless without the necessary support which, in turn, can lead to dependency on alcohol and drugs and deep psychological damage often necessitating a lifetime of access to mental health and other services at great public expense. Small charities are the backbone of provision of specialist services to the general public, can offer long-term and effective therapy and support and have the following characteristics (all exemplified in SurvivorsUK):

Adaptability – able to adapt services to the changing needs of beneficiaries more efficiently and quickly than larger governmental or commercial providers. This includes provision for specialist needs which may escape larger organisations.

Service User Involvement – dealing closely and sympathetically with beneficiaries they can help to design (and sometimes deliver) services in close accordance with their needs and wants and this ensures a greater responsiveness than can often be delivered by larger governmental or commercial providers. Charities often employ as service deliverers former beneficiaries who understand the needs of their peer group and can offer a sympathetic and welcoming environment which is especially important for those who are hard to reach or reluctant to come forward for help.

Partnerships. Charities find it easier than many government and commercial enterprises to enter into loose partnerships and agreements as they are not concerned about commercial or competitive sensitivity which enhance service delivery and increase reach.

Value for Money. Salaries are generally lower in the not-for-profit sector in comparison with the commercial and public sectors, extensive use is made of volunteers, overheads are lower and the culture and mentality of the sector is to make every penny count towards beneficiaries in the knowledge that much of the income has been donated by individuals. Expensive offices, overheads and lavish expenses are eschewed. These factors mean that,
apart from aspects of economies of scale, there is often better Value for Money from charities.

Their problems facing smaller charities such as SurvivorsUK are as follows:

**Financial sustainability.** The absence of assured continuity of funding makes long-term planning very difficult if not impossible and impacts badly on beneficiaries as well as raising the danger that an important service provider may go under financially leading to many vulnerable persons having their assistance removed.

1. government funding (both central and national). At the end of September SurvivorsUK still has no indication from the Ministry of Justice if its current year funding will continue into 2017/18 and is unlikely to be told until November. A prudent Board will have had to take decisions on cutting services before then in order to anticipate an absence of funding when there is a long lead for client services (eg a series of counselling sessions cannot end suddenly without having a deleterious effect on clients; those who are pursuing their abusers through the criminal justice system and availing themselves of the necessary assistance and emotional support of an Independent Sexual Violence Advisor will have to wait many months before the process is concluded).

2. charitable trusts/foundations. Most will give only one-off grants whereas some will give partial funding for a maximum of three years (the Big Lottery Fund is prepared to entertain five years but only up to a maximum total of £500k). Apart from the high rejection rate of applications for socially necessary but difficult causes there is an added component in that many funders will not provide substitute or funding for existing service provision, however laudable and necessary that may be. Many will fund only new projects and this requires many charitable service providers constantly to have to think of new ways of delivery even though existing practice may be the best that can be devised.

**Answers** to these problems may include expectation that more funds will provide finance for a longer period of time (preferably, a ten year period in order to allow for long-term planning or at least five years) from both governmental and charitable foundation sources. Also, the Government should consider giving further fiscal incentives to the general public (by extension of Gift Aid or other mechanism) to fund charities although the caveat is that the more “popular” causes (children, animals, research into cancer etc) will always attract greater public funding than equally necessary but less high profile causes. In order to achieve greater sustainability and consequent opportunity for charities to plan for the longer term maybe an added fiscal incentive for long term giving loyalty to a particular charity.

**Staff turnover** – as a result of not being able to offer many staff a long-term future (if their posts are funded for only a short-term) this creates problems of retention

**Absence of resources to reach out to potential donors and general public.** Wealthier charities can build on success through extensive paid advertising on television and in the media generally and build a high profile. This makes them more attractive to corporate sponsors who wish to be associated with them. These activities (all of which are denied smaller charities) generate further income with the result that the richer charities become richer and the smaller ones continue to struggle.
Answers to Questions asked by the Committee

The purpose of charities

1. Charities perform a vital role in supplementing and adding services which create a better and more inclusive society. Being not-for-profit and independent they have greater freedom to act than the public or commercial sector both answerable to public and shareholders who may not see the need for particular provision. Despite recent high-profile difficulties with some, charities enjoy greater confidence among the public and are answerable not only to their objectives but also to the public as donors. Volunteering brings more of the public into service provision and aids society cohesion. They seek to redress wrongs and inequalities through not only policy changes but, most importantly, through provision of actual services especially to vulnerable and hard-to-reach groups. As the frontiers of the state have been rolled back or new needs develop so the role and expectations on charities have grown.

Pressures and opportunities

2. Financial sustainability and the danger of over-regulation. Compliance with the increasing complexity of rules and regulations is in danger of strangling smaller charities which do not have the human resources to keep up-to-date with other than main requirements of employment law, health & safety etc. Administration of charities is taking increasing time and, therefore, money which detracts from achieving their charitable objects. The opportunities are to be able to respond swiftly and appropriately to society’s changes and challenges eg child sexual abuse. A diminution in distributable funds by charitable trusts/foundation (more limited investment return etc) and consequently more charities chasing the same donors is putting a great strain on sustainability and innovation.

Innovation

3. Charities are very effective in embracing digital marketing and social media as a cheap form of reaching out to both beneficiaries and potential donors. There is a high pool of talent in the not-for-profit sector in this field but salaries are not competitive with the commercial sector and so turnover can be high.

Governance and leadership

4. Chief Officers of charities need to have a broader experience and more hands-on skills than their counterparts in the public and commercial sectors with the exception of small businesses (for which the comparison is most apt). At SurvivorsUK the Chief Executive is in charge of fundraising, managing the accounts and payroll, marketing, outreach and partnership working, compliance with charity and company law and regulations, all aspects of human resources and people management, devising policies, procedures and practices and servicing the Board as well as running the organisation on a daily basis. More affordable training on these omnibus responsibilities would be welcome. A publicly respected qualification in exercising these skills would be a benchmark for Trustees to be able to choose effective Chief Executives (eg Certificate/Diploma in Public Management from the Office for Public Management, Gray’s Inn Road).

5. Trustees should exercise informed oversight and judgement of the running of a charity as well as determining its strategic planning but not become involved in the daily running. More training in the difference between governance and management is needed as well as
opportunities for peer understanding afforded by the Association of Chairs of charities. Notwithstanding the difficulty in recruiting trustees in the current climate of concern about their liabilities and absence of younger people coming forward the establishment of a certificate of competence following an examination would guarantee a degree of quality if all trustees were required to have this to hold office. For larger charities (perhaps >£1m turnover) the current system of well-meaning amateurs, charismatic and committed founders etc though admirable does not ensure the proper range of skills needed in a Board and the concept of Non-Executive Directors from the commercial sector should be adopted together with greater guidance from the Charity Commission as to the minimum skill-sets needed on a Board.

Accountability
6. All charities should be required to hold open annual general meetings to which stakeholders and the general public have access in order to present their strategies, record of delivery and financial statements. All should be required to have a Risk Register and to show forward projections for the next three years.

Resource management
7. This is dealt with in the Summary above. There is a significant need for sustainability through security of funding for at least five years which should apply both the governmental and charitable trust/foundation funding. Partnerships, even loose ones without formal legal agreements, should be encouraged for improved efficiency, reduction of unnecessary duplication and more effective service delivery. SurvivorsUK has formed such a partnership with Survivors Manchester, Mankind Counselling and Safeline looking at the establishment of common quality standards to be applied universally in the delivery of services to male survivors of rape and sexual abuse. That partnership has also paid a joint visit to the Ministry of Justice about funding the sector. Such partnerships and joint bids for funds should simplify the allocation of resources by all funders.

Social investment
8. Social investment and social impact bonds need to be made more widely available and comprehensible to the sector and be more greatly encouraged by Government through incentivisation. They should be seen as a part of funding the sector but not the major part.

9. Government (both local and national) should fund/commission the sector to provide innovative and effective services where these can be provided more cost-effectively and in a more user-friendly manner than by government directly. This should ensure mainstream provision and pump-priming for dealing with new issues/problems facing society (such as increased identification and reporting of child sexual abuse). Local services can be stimulated by local funding devolution but necessary funds must be retained centrally for national services which may not be seen as a priority by local funders. An example of this is SurvivorsUK which receives a Ministry of Justice grant for its national website: the Chief Executive wrote to 40 Police & Crime Commissioners asking for a contribution to the national service from which all benefit but received only two favourable funding responses.

Lessons from other sectors and countries
10. No comments.
Keith Best

30 September 2016
The Swinfen Charitable Trust — Written evidence (CHA0007)

Herewith our evidence to The Select Committee on Charities. I will be very happy to answer any questions that the Committee or you may have.

This Charity provides specialist medical advice using a secure confidential email system, free of charge, to doctors and other medical workers in 76 underdeveloped countries to enable them to give their patients the best possible treatment. We operate 24 hours a day, 7 days a week.

The Medical Specialists, who give their advice free of charge are mainly based in the UK, USA, Australia, Canada and New Zealand. A few are based in other countries. At present our work is carried out in English.

Members of The Select Committee may find it useful to see the academic papers on the work of this charity on our website www.swinfencharitabletrust.org

Answers to the Committee`s Questions.

1. All our Medical Consultants are volunteers. They give their advice on difficult or unusual medical referrals free of charge to medical workers in under-resourced parts of the world, enabling them to give the best possible treatment to their patients. Nearly every answer to a referral gives the medical workers at the referring hospital / clinic a measure of medical education.

2. Our main pressure is financial. The charity operates from England, but the benefit provided is in the Developing World. Grant making organisations appear not to realise that with modern communications the medical advice can be generated in the developed world for the benefit of patients in the developing world.

3. We think that our work using Telemedicine is innovative [first case in 1999]. At first it was thought that Telemedicine would be of very limited value, but we can demonstrate that its use can be widespread. We have found no medical problem where Telemedicine cannot be used to assist the local medical worker.

4. Enthusiasm for the cause the charity supports. Good leadership skills.

5. An understanding of, and enthusiasm for, the charity`s work and the benefits it brings to those it helps. An understanding of the way in which it should operate and how it in fact operates. Consideration should be given to legally limiting the term a Trustee serves. That term should be renewable.

6. We are accountable to our beneficiaries by providing the best possible specialist medical advice in a timely manner, on the information on the patient provided by the referring medical worker; but it is up to that medical worker to apply that advice properly dependant on their skills, the equipment and medicines / drugs that are available locally.
Our Annual Reports and Accounts are available on the Charity Commission`s and our websites. We are always prepared to answer questions on our work. Our long term viability depends on a supply of properly qualified volunteer medical specialists willing to give their advice free of charge and an adequate supply of funds to cover our running costs.

7. With the current extraordinarily low interest rates, Grant Making Charities, and other donors, have less to donate.

8. ----- 

9. The Charity Commission should ensure the financial probity of charities and that they are actually undertaking charitable work.

Yours Faithfully

The Lord Swinfen, MBE.

5 August 2016
Mr Patrick Taylor — Written evidence (CHA0020)

Submission to the House of Lords Select Committee on Charities — 2016

Intro:

1) I have chosen carefully and supported some charities for decades. When I discovered one of them had set up a potential multi-million bonus scheme for four extremely well-paid executives I was naturally curious as to why the Trustees thought this was necessary or advisable. This gave rise to the logical thought as to what powers did members of the charity, and the Charity Commission have to deal with this or any other matter.

2) My interest piqued, this has lead to nearly three years of research into membership charities in general, overseas charities operating in the same field, and what governance flaws were common. I also signed up for daily input from the sector’s media, and became a fan of the Charity Commission site and its reports.

3) Regrettably research in the wider field found entrenched CEO, dominant Chairmen, ignorance of Articles, commercial arms out of control, and Trustee interests being undeclared in the Accounts.

4) I have been fortunate to have had the counsel of an ex-CEO of two membership charities who is also currently a Trustee of a third charity. I have also talked to several current and ex-trustees of various charities regarding governance. I have had the support of over one hundred concerned members of a charity and this includes financially to pay for the costs of contacting fellow members.

5) I am convinced that the huge majority of charities are run with good intentions and effectively but it is unfortunately true that some Trustees do not perform well, and also some Trustees simply take advantage of the charity system.

6) By highlighting the flaws I have discovered I hope that the opportunities for poor governance will be reduced. Two of the flaws I highlighted last year to the Charity Commission seem to be covered better and more strongly in the Guidance published this year however other aspects remain unresolved.

Executive Summary

7) The reasons for the following recommendations I have included within the body of the submission. They are all based on facts and existing positions. I hope you will feel that they are worthy of discussion and support.

Recommended changes and an observation

8) **A** Trustees sign annually that they have read the Charity’s Articles and all necessary Charity Commission guidance documents most particularly those recently introduced and considered the relevance to their charity. [Paras 21-23]
B) Accounts must reveal any interests, or benefits indirect or direct for Trustees, and for staff regardless of any SORPS / GAAP interpretations. [Paras 39-49]
C) Membership charities should all be required to allow 50 members, or 5% of membership whichever is less, to generate Resolutions and to have them voted on at AGMs free of cost. [Paras 31-32]
D) Where charities own commercial limited companies they should have some main board Trustees as some of the Directors. Preferably these should be elected Trustee[s], rather than co-opted main Board Trustees. [Paras 24-30]
E) An on-line archive of all AGM Minutes should be available to members/supporters. [Paras 53-57]
F) When either Trustees or Members suggest constitutional changes a Charity needs to provide a venue for discussion which works on-line and provides for comment to be uploaded. The flagging up of the suggested change and the vote on the Resolution to be more that 15 months apart to allow discussion. [Paras 19-20]
G) Abuse of Articles to be a trigger for the Charity Commission’s new power of a warning as per Section 75A Charities Act 2011. This warning to be expeditiously advised to members of the charity. [Paras 21-23]
H) Charity Commission to require Voting forms and Accounts to be sent together to members. This is not covered by the Companies Act 2006. [Paras 33-38]
I) Consideration be given to the notion that for larger charities the part-time nature of Trustees would be bolstered by having a formal group of elected or chosen supporters to provide an effective sounding board for the Trustees.

THE PURPOSE OF CHARITIES

PRESSURES AND OPPORTUNITIES

INNOVATION

3. How do charities seek to innovate, particularly in the digital arena?

9) The National Trust broadcasts its AGM live and interactive and I think is a major advance for large charities. Transparency and being close to supporters are important even if the apparent number of people interested is low. The sum of £25,000 is small given the overall costs of an AGM and particularly so with a membership of 4 million.

10) If every Charity has a website then all past AGM Minutes, the Charity Articles, Accounts, Reviews and current Trustees tenure and basis of tenure, could be accessed. A standard template for display would solve much stylistic debate for the charities and enable interested people to easily find the information. For small charities perhaps the Charity Commission should host for a nominal fee. This would also tend to highlight semi-dormant or dormant charities.

11) Digital innovation being correctly used might also be covered here. In at least two cases specialist charities were not linked to when it would have been very beneficial to the public for the more extensive information at those sites to be considered.
12) This suppression of better information is possibly due to the monetary income derived from directing traffic to a commercial venture which the charities wished for themselves. In another case it was that the charity had a straight commercial transaction to steer viewers to that particular company. If a charity is subscribed to for best guidance it does seem particularly invidious to “playpen” readers.

GOVERNANCE AND LEADERSHIP

4. What skills are required to lead and manage a charity

13) The range of charities being so broad I consider this almost unanswerable given the space available. I think however integrity and honesty are always both absolute requirements and an understanding that being transparent with supporters is vital.

14) Further skills are very much dependent on the size and aims of the particular charity. A small charity running a hospice is in no great need of deep strategic thinking. Conversely a campaigning charity may be thinking deeply about future causes and effects. The great virtue for a larger charity is that it can hire in the people to cover various different aspects.

5. What role should Trustees play in the performance and effectiveness of a charity

15) There is an assumption, particularly for very large charities, that all Trustees are up to speed and concentrating on the good of the charity. However it is evident that this is not always the case. In one large charity I was told the role of the Trustees was to act as advisers to the employees of the charity: this from two separate Trustees at two different times.

16) Dependent on the charity the scope of its operations may make it very difficult for Trustees to keep an eye on all aspects. This would be particularly true if the Chairman’s style is for infrequent meetings. A formal arrangement where, by rotation, Trustees reported on the various sectors would seem logical but missing in at least one charity.

17) Without getting deep into the benefits or not of elected and co-opted Trustees I would mention that research from the USA suggests that often co-opted Directors are very pleased to be selected to be on a prestigious Board. These Directors tend to be deferential to those who chose them. The dangers of ensuing “groupthink” can apply equally well to charity Trustees as to the directors of Banks who were the subject of Lord Myners’ criticism.

18) There have been a number of recent examples where Trustees apparently failed. If a charity has dominant individuals such as the CEO and the Chairman working in unison the rest of the Trustees may never feel sufficiently ensconced even to raise doubts, or if they did were out-voted.

Constitutional Amendments

19) A charity at short notice mailed a Resolution to members arguing that a smaller Trustee Board would be more efficient. The reduction to be accomplished not by reducing the co-opted six Trustees but by reducing the elected Trustees from 12 to 9 with effect from the forthcoming election. The Resolution and the special meeting vote took place within two months and in the middle of the summer prior to the autumn AGM. The result of this
Mr Patrick Taylor — Written evidence (CHA0020)

vote was fairly dramatic in that even after four years in the Trustees Board has only 8 elected members out of a required 9. To fulfil the requirements of the charities Articles for the past three years the Council have been appointing up to three co-opted members to be “elected” members.

20) That the accepted method of losing a position per year was sensible, but avoided by the Trustees, was but one concern However with no forum for discussion and a cost in excess of £3000 for a member to write to fellow members it was an effective fait accompli.

Abuse of Articles
21) Given Trustees are required to know the Articles it is a major worry when the Articles are ignored and if it is deliberate it is indicative of a state of mind. Ignorance of the Articles can hardly be a defence as it is a most basic part of being a trustee.

22) In one charity of concern it ignored its own Articles:
a) The requirement for being a member before being a candidate for election;
b) The requirement that all sub-committees are two-thirds elected Trustee. This being very relevant to Remuneration, and Candidate Screening committees.
c) Restriction against engaging in trading.
d) The correct process for the appointment of the chairman from amongst the Trustees

23) Trustees should by all means make a case for change to Articles for members to vote on but to ignore them deliberately is more than simply a reputational risk matter.

Control of the Charity Assets
24) Dependent how a charity is organised and how involved the Trustees are will make a difference as to how effective control is. Membership charities where staff consider they are running a foundation can create a mismatch with Members views of who is paying - if the Trustees are not careful. Establishing multiple commercial companies inevitably makes any control more difficult.

25) This rather interesting view gains some credibility given recent events at one charity. Introduction of a new set of Articles empowering the Board of a commercial arm to make all decisions on salaries. The Half-Yearly review to Ordinary Members [shareholders] noted that three Trustees had been elected but did not name them, and ignored completely the appointment of two new co-opted Trustees a fortnight after the AGM.

26) The Trustee Board in the last decade become increasingly more divorced from the commercial arms such that those Boards are now comprised entirely of staff and co-opted Directors. Currently there are no elected Trustees, or for that matter co-opted charity Trustees on the Boards of three 100% owned commercial companies.

27) There should be membership concerns where a charity embarks on commercial ventures with losses north of £25m over the last five years and insists it is paying high salaries and bonuses for the expertise of the staff concerned. As there is no discussion on the matter the membership are untroubled to consider the implications.
28) It is also noteworthy that new members are recruited annually by the handful but existing members are dying/resigning at the rate of several hundred a year and this has been going on for a decade. In the same period subscribers have been given voting rights to elect Trustees, but are not sent the Accounts or the AGM Minutes, with the result that informed members have become a small minority of potential voters for Trustees.

29) No membership figures are provided by the charity for ordinary members which is not helpful as members, responsible for the monitoring of the Trustees running the charity, are unaware of the loss of nearly 50% of members over the last decade.

30) It would be better that all membership charities are required by law to advise membership numbers by type annually and these figures to be in the Accounts. This being particularly true where the electorate have no idea as to the numbers of eligible voters.

6. ACCOUNTABILITY

Resolutions
31) I much admire the National Trust’s system where its 4m members are empowered by a simple and clear system of Resolution raising. Their requirement, and this is shared by other charities, is 50 members. The Proposers put forward a Resolution and these are all dealt with at the AGM with no cost to the proponents.

32) Obviously less admirable are the charities that rely on the terms of the Companies Act dealing with private limited companies - which is the status of many charities. The requirement to contact and gain the support of 5% of all shareholders and then pay for the cost of the Resolution is patently not very member friendly. Particularly where the advised cost of bringing the Resolution to the vote would be nearly £1 per mailed voting member.

Voting Forms and Accounts
33) The Annual Report and the Accounts are the primary means for members of a charity, or interested parties, to see what is going on in the charity.

34) Curious as it may seem, and I think because nobody considered it in drafting, there is no legal requirement that the voting forms be sent out with the Annual Accounts. The Department for Business, Innovation and Skills does not seem interested in changing this anomaly suggesting it is up to the individual shareholders to persuade the Trustee/Directors.

35) However I see no reason why the Charity Commission does not make this a requirement for all charities - without individuals having to pressure Trustees. In this particular case a charity was consistently sending the voting forms out in August but the Accounts to which they related were not sent out until late October to arrive shortly before the AGM.

36) As you may imagine members could either lose the voting forms or respond immediately to clear their desks without ever having seen the Accounts. When the
Accounts did arrive they may have seemed irrelevant particularly given the nature of Accounts and the lack of a form with the Accounts to encourage any reaction.

37) It is very disheartening to those who do read Accounts to realise that a majority of shareholders had already replied agreeing them weeks before the Accounts were produced. Matters like multi-million pound bonus schemes and ten million pound plus losses in overseas commercial ventures are important matters.

38) It is not often realised that voting against the Accounts is perhaps the most potent form of protest available to members against the conduct of a firm or charity. It has no legal effect on the Accounts lodged. Leaving the charity in disgust does not remedy the matter or provide for lessons to be learned.

Reporting of Benefits and interests

39) Many people are under the impression that any connection or benefit for a Trustee is reported. A view supported if you read the Charity Commission guidance documents. And reinforced if you look at the Accounts of the Royal Horticultural Society, or either of the National Trusts, where all interests, both financial and of influence, are reported.

40) Essentially Accounts are assumed to provide an honest and fair view to shareholders and other interested parties.

41) In some lengthy correspondence with the Institute of Chartered Accountants of England and Wales [ICAEW] they have defended sets of Accounts which over a period of six years revealed a Trustee’s newly acquired holding in a major supplier only twice despite the shares being owned during the entire period bar a 9 month gap.

42) The problem might be summed up as essentially there is a divergence between the current Statement of Recommended Practice [SORPS] and the Charity Commission guidance. Notably the Charity Commission include “business partners” as connected people and this term is missing from the current SORPS.

43) We also have the Charity Commission stating:

3. RECORD conflicts of interest

Trustees:
• should formally record any conflicts of interest and how they were handled
• must, if they prepare accruals accounts, disclose any trustee benefits in the charity’s accounts

Again this does not seem to be mentioned in the current SORPS for charities.

44) In this particular instance the Trustee concerned advised at an AGM of the sale of shares involved and this was also reported in the Accounts. Then the Trustee re-acquired the shares in the weeks after the AGM. This was not reported in the following years Accounts leaving members with the conviction that there was no longer a Trustee interest to be reported.
45) The reason provided for the non-appearance of the Trustee’s interest in the next Accounts may be to do with the appointment of a new audit firm and/or a change in the Articles that occurred that year.

46) When I studied auditing the matter of relevance was a consideration. This seems curiously absent from current charity reporting guidelines. For instance if I own a newsagent and I am a Trustee to a charity which buys papers from me that would feature in the Accounts no matter how small the amount. Apparently if I am a 1% shareholder in a company with a very large contract say £0.5m with a gross benefit of £5000 attributable to my share then that is not reportable.

47) In my view when it comes to Trustees we take the broadest possible view subject to a relevancy consideration. Curiously this seems to be missing from both the Charity Commission guidance and SORPS. Simply if I hold shares in EDF and the charity obtains its electricity from them it is irrelevant from the point of view of the Accounts as my dividend would be fairly insignificantly derived from the charity.

48) If as a Trustee I buy a few shares in a newly formed company which then gains a £0.5m contract with the charity then that is highly significant. Ignoring the breaching of the Charity Commission guidance on entering into conflicts of interest for a moment you would think this interest would always be reported in the Accounts.

49) All Trustees are liable for the statements made in the Accounts so you would think suppression of an item of relevance they would err on the side of disclosure rather than not. It would be of interest for the charity and accounting sector why this panned out the way it did.

PLC’s, Partnerships, and Private Limited companies

50) This spills over into another area. I have highlighted this last year to the Charity Commission, as staff may not realise, that there is a considerable distinction between PLCs and Private limited companies. By design the latter have a limited number of shareholders and essentially you are invited to invest. So in a sense just like a partnership but with limitation on loss.

51) The current rules used by both by the Charity Commission and the auditors on controlling partners etc is based on the notion that all shares are equal. In a private limited company the rights and benefits can be assigned to various classes of shares. Theoretically I could have the controlling share or alternatively be the main beneficiary of all the profits but because it is a minute fraction of all the issued classes of share I would be invisible to a coarse measure such as do I have 1% or 5% in value of the issued share capital.

52) Given a private company can call a meeting involving a few people and change the respective rights very easily it seems to me that all shareholdings must be reported in private limited companies regardless even if the Charity Commission are happy with the present arrangement with Trustee holdings unreported.

AGM Minutes and Recordings
53) There can be a lot of information in Minutes but if they are not available to members then the information, wisdom or thoughts expressed can be lost. Many AGM meetings cover recurring matters like alternative Head Office sites, refurbishment of offices, nature of leases, interpretations of Article clauses, matters in the Accounts etc. which might come up every decade or so.

54) The answers and wisdom of these meetings should be seen and the ten year limit on providing back copies would then be redundant. This may helpfully cover the airbrushing of history where a charity site omits all data on the selling off of arms and closures which are very likely mentioned by members at the AGM.

55) In an age where few people travel to AGM’s and if they do it is generally because they have important concerns it would seem equitable if AGM’s are recorded and made available uncut to members. I have been told that transcripts are labour intensive which I accept. However printed Minutes and with the recourse to an audio or video recording I am sure member interest will be more readily achieved.

56) In 2013 at an AGM I called a £2m+ executive bonus scheme obscene but the very watered down version in the Minutes sent to members the following year would be hard to be excited about. Viewed, or a verbatim record, or heard live I am sure would have raised more interest.

57) The recording in the Minutes of the Trustees actually present at the AGM should be mandatory.

RESOURCE MANAGEMENT

SOCIAL INVESTMENT

9. THE ROLE OF THE GOVERNMENT

Charity Commission

58) From comments received from charity insiders, and indeed lack of the reaction to my correspondence to the Charity Commission last year, the expression paper tiger seemed regrettably true. Utilising one’s M.P. seems to bring a better response.

59) The stronger guidance documents issued this year seem to be a step in the right direction. The power to warn charities and Trustees publicly I think is very important in providing some stick. Particularly if the Commission use the power.

60) It seems wrong that a quiet word in the ear to save reputation also has lead to members/supporters being unaware of important matters in their charity. Abuse of the Articles is not necessarily trivial as mentioned previously.

61) There are some considerations I am not sure the Charity Commission have taken on-board and this may simply reflect a dead bat approach to engagement. I pointed out that a
charity used a form of words that are potentially misleading to members. Essentially the charity suggested to members the Charity Commission had “approved” the proposed change to Articles.

62) My contention is that the Charity Commission should provide a required form of words that must be used such as “That there is no reason why this Resolution changing the Articles may not be voted on by Members.” Which I think you may agree fairly provides a different emphasis and engages the member to think.

63) In this particular instance it was to increase the limit in shares a Trustee may have in a company with which the charity does business. Why this “ultra vires” clause is also not capped as to amount eludes me given that shareholding percentage is an unreliable measure. Charity members need better control than this commonly used clause.

10. LESSONS FROM OTHER SECTORS AND COUNTRIES

64) This has been a fruitful area and involved many similar membership charities being examined in Australia, France, Germany, India, the Netherlands, and the USA. I joined two of them and also receive regular e-mails from most of them advising what they are doing. It is notable that in the cases found the wages of the senior executives are more reasonable than the UK equivalent.

65) Looking at the UK I looked at the major membership organisations like the National Trusts, and the Royal Horticultural Society. The National Trusts have been helpful in providing information on governance and the meetings they hold with members. The Scottish National Trust requires Trustees to speak at “town hall” meetings which I think is a truly bold step but very relevant to this type of broadly based charity.

66) The National Trust for England and Wales to be one of the best in engaging with members and transparency. This evidenced by the body beneath the Trustees, the interactive broadcast AGM, and the Resolution process.

67) The French charity Que Choisir is very interesting from a UK perspective as unlike the centralising tendency of the UK sector it has 150+ member centres around France which seem to drive the organisation. In one month they mobilised to review, in secret shopper mode, 3000 retirement homes. That is impressive for any charity.

68) The Australian charity “Choice” annually awards the Shonkies – equivalent to “shoddy” – to companies who have aroused the ire of consumers in the previous year. This achieves much publicity in Australia and highlights vigilance on consumer issues and involves the population.

69) The Dutch Consumentenbond is also very noteworthy for providing the template for an inclusive form of governance under the Trustee Board who can take a more intelligent interest in the charity than the average member of the public. It also provides a proving ground for future Trustees who will, if elected, be far more au fait than helicoptored in co-ops or candidates.
70) I have provided a page with its constitutional organisation, and a response from Consumentenbond regarding how well the system works. Courtesy of Google, I translated the constitution.

https://www.quechoisir.org/plan-du-site/
http://consumers.wikia.com/wiki/Consumentenbond
https://en.wikipedia.org/wiki/Consumentenbond
https://www.nationaltrust.org.uk/features/how-we-are-run
http://www.nts.org.uk/Charity/Our-people/Governance-Structure/

22 August 2016
Third Sector Research Centre and Centre for Philanthropy — Written evidence (CHA0112)

Attitudes to charitable giving and fundraising, 1991 and 2015

Submitted by Prof John Mohan, Director, Third Sector Research Centre, University of Birmingham and Dr Beth Breeze, Director, Centre for Philanthropy, University of Kent

Context: Public attitudes to charity involve enduring concern and scepticism

There has been considerable adverse publicity about charities recently. However, it is not actually news that charities can sometimes antagonise their supporters and confuse the public. Social investigations from the 1940s, by the research charity Mass Observation, show how respondents were:

- confused about the definition of charity, although some were able, without prompting, to explain the Biblical etymology of the term and question the debasement implied in contemporary usage;
- unable to name more than a very small number of organisations;
- convinced that many charities were wasteful;
- likely to be resentful of aggressive fundraising tactics (“bludgeoned into buying a raffle ticket....pounced upon and a few coppers ransom being demanded...”)
- of the opinion that charities were not to be trusted with personal data (“someone gives [your address] away, I don’t know who; I think it must be the Post Office when you get the postal order....then they all kept at it, you didn’t get no peace. I never gave them my name but they found out”).

The enduring nature of such issues demonstrates that charities must work continuously to win the trust of donors, and that any particular recent actions and decisions by charity leaders and fundraisers cannot be held solely accountable for such long-standing concerns.

Nevertheless, most people do support charities and there is considerable long-term stability in the proportion of the population who give to charity. If donor confidence was lacking, or varied over time, then presumably we would not witness such stability.

Much is expected of charity at the present time, during a period of ongoing public spending cuts, and so attitudinal data are of considerable potential value; they may have

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ramifications for public confidence in, and for the future sustainability of, charities. What does the evidence suggest? And what can – or should – charities do about it?

Survey data

The most reliable barometer of public attitudes is the British Social Attitudes Survey (BSAS), which has been running since 1983. The survey has not routinely asked about charitable giving or about attitudes to charity, but in 1991 it carried a specific section on charitable giving. In addition, in the self-completion module of that year, questions were also asked about individuals’ attitudes to the respective roles of charity and government.

In order to understand if, and how, such attitudes had changed in the intervening 25 years, we revisited these attitudinal issues in 2015 using an online survey which replicated relevant BSAS questions.

To put the two surveys into context, the BSAS questions were asked over a decade into the period of Conservative rule that began in 1979. Mrs. Thatcher’s governments had granted to charities a growing responsibility for areas previously in the exclusive domain of government, but this did not necessarily mean that the public would become more approving and supportive of charities. Our own survey was conducted during June 2015, after five years of a Coalition government in which David Cameron’s advocacy of the “big society” appeared to provide a supportive environment for charitable activity.

In the intervening twenty-five years there had been significant changes in public attitudes to taxation and expenditure. The proportion who wished to “increase taxes and spend more” was just over 60% in 1991 but had dropped to around one-third by 2013. The view that “if welfare benefits weren’t so generous people would learn to stand on their own two feet” was supported by only one-third in the early 1990s but by 2010 it was over 50%. This seems to indicate a greater belief in the importance of individual responsibility. Were such trends reflected in our data?

The results are shown in the following two tables:

<table>
<thead>
<tr>
<th>Year</th>
<th>Agree strongly / agree (%</th>
<th>Neither agree nor disagree (%</th>
<th>Disagree / strongly disagree (%)</th>
<th>Can’t choose / no answer (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>People should look after themselves and not rely on charities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>28</td>
<td>25</td>
<td>43</td>
<td>4</td>
</tr>
<tr>
<td>2015</td>
<td>52</td>
<td>33</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>60</td>
<td>18</td>
<td>18</td>
<td>3</td>
</tr>
</tbody>
</table>

482 See [http://www.natcen.ac.uk/our-research/research/british-social-attitudes/](http://www.natcen.ac.uk/our-research/research/british-social-attitudes/)

483 For more details of the survey see Mohan, J and Breeze, B (2016) The logic of charity: great expectations in hard times (Palgrave)

It is NOT everyone's responsibility to give what they can to charities.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>48</th>
<th>28</th>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are so many charities that it is difficult to decide which to give to.</td>
<td>1991</td>
<td>77</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>81</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Most charities are wasteful in their use of funds.</td>
<td>1991</td>
<td>36</td>
<td>33</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>39</td>
<td>38</td>
<td>23</td>
</tr>
<tr>
<td>Government should do less for the needy and encourage charities to do more instead.</td>
<td>1991</td>
<td>6</td>
<td>12</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>9</td>
<td>27</td>
<td>64</td>
</tr>
<tr>
<td>We should support more charities which benefit people in Britain, rather than people overseas.</td>
<td>1991</td>
<td>56</td>
<td>17</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>58</td>
<td>30</td>
<td>12</td>
</tr>
</tbody>
</table>

Table 1: Attitudes to charity and the role of government, 1991 and 2015.

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kidney machines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Entirely / mainly from government (%)</td>
<td>Shared equally (%)</td>
</tr>
<tr>
<td>1991</td>
<td>93</td>
<td>5</td>
</tr>
<tr>
<td>2015</td>
<td>76</td>
<td>17</td>
</tr>
<tr>
<td>Housing for homeless people</td>
<td>86</td>
<td>9</td>
</tr>
<tr>
<td>2015</td>
<td>65</td>
<td>26</td>
</tr>
<tr>
<td>Lifeboats</td>
<td>65</td>
<td>21</td>
</tr>
<tr>
<td>2015</td>
<td>57</td>
<td>29</td>
</tr>
<tr>
<td>Protecting rare animals</td>
<td>30</td>
<td>36</td>
</tr>
<tr>
<td>2015</td>
<td>19</td>
<td>40</td>
</tr>
<tr>
<td>Holidays for disabled people</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
<td>26</td>
</tr>
<tr>
<td>Food aid to poor countries</td>
<td>29</td>
<td>34</td>
</tr>
<tr>
<td>2015</td>
<td>19</td>
<td>34</td>
</tr>
</tbody>
</table>

Table 2: Attitudes to responsibility for meeting needs, 1991 and 2015

* includes response ‘from elsewhere’
There are some limits to the comparisons that can be made between the BSAS survey in 1991 and our survey in 2015, but the basic pattern of results, and the consistency of changes across similar questions, give us confidence that, at least for headline percentages, valid comparisons can be made.

The respective roles of government and charity

The 1991 BSAS asked respondents how much they agreed or disagreed with the proposition that governments “should do less for the needy and encourage charities to do more instead”. Over three quarters (77%) disagreed with this view, and a further 15% gave a neutral answer, with only 6% supporting a smaller role for government in alleviating need. By 2015, there was a small-scale shift in the position: 64% disagreed, 27% had a neutral view, and 9% were in some measure of agreement.

As to specific fields of responsibility, as shown in table 2, six areas of expenditure were named and respondents invited to state whether funds should be provided by entirely or mainly by government, entirely or mainly by charities, or equally from both. The causes chosen in 1991 ranged from health expenditures, which are conventionally associated with public funding, to animal welfare, which is characteristically seen as a charitable endeavour. Respondents were not asked, in either survey, what they thought the current funding position of these fields of activity was.

We detect some signs of change since 1991. Firstly, consider the two areas where the public strongly believes that responsibility for funding rests entirely or mainly with government: health expenditure (represented by the item ‘paying for kidney machines’) and ‘housing for homeless people’. In 1991 over nine-tenths (93%) of respondents believed that the former was a public matter and five-sixths (86%) believed the responsibility for aiding homeless people should rest entirely or mainly with government. By 2015, the proportions were down to three-quarters (76%) for kidney machines and two thirds (65%) for housing for the homeless. However, in 2015 fewer than 5% of respondents argued that responsibility for funding either health or homelessness should rest entirely or mainly with charity.

Where change has occurred is in stronger support for some form of shared responsibility between government and voluntary initiative. This option attracted greater support in 2016 than 1991 for 4 out of the 6 areas of expenditure.

Attitudes to the financing of lifeboats are an illuminating insight into the public’s understanding of how charities are actually funded in practice. In 1991 two thirds (65%) believed lifeboats should be entirely or mainly the responsibility of government, and that proportion drops to 57% by 2015, while the proportion favouring entirely or mainly

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485 The following points are the most relevant here. We did not have the resources to conduct a survey on the scale of the BSAS nor can we claim that our survey achieved the degree of representativeness of the former. Our survey was on-line whereas the BSAS was conducted face-to-face. Our sample size was 1059, compared to 3000 in the BSAS. The use of an online instrument in 2015 probably accounts for the underrepresentation of older people in our response (18% of our sample were aged 60 and above compared to 27% of the general population). We have dealt with this by re-weighting our responses to the current age and sex distribution of the population. The expansion of higher education means that a higher proportion of our sample have degrees than was the case in 1991.
charitable financing remained constant. In fact, the financing of lifeboats comes entirely from voluntary support. When ranked by levels of fundraising from individuals, the Royal National Lifeboat Institution (RNLI) is one of the five largest charities in England and Wales, and it has always prided itself on raising money from the community, not from government.

Animal charities can be the butt of criticisms of the capricious nature of charitable giving. The specific question here, though, was the protection of rare animals. Despite growing awareness both of environmental issues and of specific threats to rare species, the public does not regard this as a priority for government. The proportion believing this is wholly or entirely the responsibility of government dropped from 30% in 1991 to 19% by 2015. With just over one third (35%) agreeing that needs in this area should be met entirely or mainly by charity, the most popular response (40%) is ‘shared equally’ between government and charities.

In the last two fields of activity, a majority of respondents believe that responsibility for meeting particular needs should now be the province of charity. These are holidays for disabled people, and food aid to poor countries. In both cases, the proportion favouring charitable finance has gone up from 30% to just over one half (52%) for holidays for people with disabilities, and close to 3/5 (58%) for food aid to poorer countries. There has been a substantial reduction in the proportion who believe that holidays for people with disabilities should be entirely or mainly funded by government (dropping from 31% to 11%), while only 19% now believe that food aid to poor countries should be entirely or mainly the responsibility of government, compared to 29% in 1991. The latter is consistent with responses to the final question in table 1 about whether charitable support should be directed to people living in Britain rather than overseas. It is possible that public awareness of the rise of food banks in the UK may also be driving responses to the question on food aid, since food poverty is now a visible social problem in a way that was not the case 25 years ago. This could lead the public to being more supportive of UK-based charities dealing with the issue.

As in 1991 the responses suggest that support for government funding is greatest for causes that are about directly alleviating human suffering or saving lives in Britain. The relative rankings of the proportions favouring government funding have not changed, though the proportions of the population endorsing it in relation to specific areas of need have dropped. The importance attached to public funding for lifeboats is interesting, and suggests that the general population are not aware of the significance of individual giving in some spheres of activity.

**Attitudes to charity and the role of government**

The BSAS included several more general questions about public attitudes to charity and government. Focusing specifically on charities, two questions reveal very little change. The first concerned the confusion caused by the alleged proliferation of charities. Back in 1991, over three-quarters (77%) of the respondents agreed or strongly agreed with the statement that “there are so many charities that it is difficult to decide which to give to”. The corresponding proportion in 2015 was slightly higher, at 81%. Although it is sometimes
argued that there ought to be rationalization of the population of charities (such as forced mergers), it is also worth pointing out that the ratio of charities to population has not increased; the numbers of charities registered in England has remained broadly constant for most of the past two decades while the country has experienced rapid population growth.

There was also an increase in the proportions agreeing with the statement that “most charities are wasteful in their use of funds”, from 69% to 77%. The 2015 responses may reflect a period in which, in recent years, aspects of the charitable sector have received criticism, particularly regarding administrative costs and high salaries. Such criticisms create in the public mind an aura of extravagance and efficiency. The problem with these arguments is that headline figures such as the salary paid to a particular individual, or the costs of fundraising by an individual charity, are taken out of context and besmirch the reputation of the population of charities. In the case of apparently high salaries, for example, a more systematic analysis demonstrates how the pattern is readily explicable in relation to characteristics of charities such as size and complexity.

Turning to the broader attitudinal questions, the most significant shift we identified is in response to the statement that “people should look after themselves and not rely on charities”. The proportion agreeing with the statement has nearly doubled from 28% in 1991 to 52% in 2016. This is consistent with other attitudinal changes over the period in question, in the direction of greater self-reliance and individualism. The proposition that “government should do less for the needy and encourage charities to do more instead” is still rejected by a majority of respondents, although the proportion has dropped from 77% to 64%. A specific question on the importance of charitable giving also reveals a shift in attitudes. When asked in 1991 to respond to the proposition that “it is not everyone’s responsibility to give what they can to charities” (emphasis in original), 3/5 (60%) of respondents agreed or strongly agreed. By 2015, this figure was down to 48%, suggesting a growing acceptance of the importance and need for charitable donations that is reflected in the ongoing generosity of the majority of the population but is arguably inconsistent with growing complaints about fundraising and wider charitable activity. It would seem thankfully for charities and their beneficiaries - that actions speak louder than words.

What does the data on charitable attitudes mean for practitioners and policymakers?

Overall, attitudes to charitable activity are relatively stable and the British public continues to provide financial support to charities, but there is an enduring level of skepticism about waste and inefficiency which dates back many years. It is therefore unreasonable to blame recent and current practices within charities, such as in the fundraising function, for such attitudes.
Charities can do more to convince donors that funds are being well-spent, and indeed there is a growing trend towards measuring impact and publishing reports to show what has been achieved as a result of charitable activity. But such investments are likely to be undermined by ideological criticisms and evidence-free assertions. Decontextualized criticisms about fundraising techniques, high salaries, or administrative costs do not contribute to a sensible debate and arguably make the task of charities harder. In sum, what Matthew Hilton characterizes as “sticking the boot into charity” hardly seems likely to stimulate public support for it. 489

Furthermore, fuller explanations of cost structures may not be relevant to all donors. It is important to note that charitable decision-making is not an entirely objective or rational process. Donor autonomy is paramount, and the freedom to choose what causes to support is a key difference between taxation and donations. Our research490 shows that donors primarily choose charities as a result of personal connections to causes and preferences rooted in life-long socialization – for example cancer research charities attract a lot of support because that illness directly or indirectly affects most people. Furthermore, donors choose causes in geographic areas with which they have personal connections rather than where the greatest need exists, for example supporting their local hospice, air ambulance or theatre rather than exhaustively searching for the ‘best performing’ charity in these fields. That said, donors frequently express concerns about the competence and efficiency of charities491, and there is an apparent relationship between trust and confidence and decision to donate/size of donation492.

The ongoing and widespread concern about waste certainly suggests that charities need a better response to this issue, but further research is needed to understand exactly what is it that potential supporters object to and how to counter it. Elaborate information campaigns by charities will never convince some sceptics and may be irrelevant for others.

But our final conclusion relates to what politicians and sector leaders, not individual charities, can do. The public’s lack of understanding of what UK charities do, who benefits from them, why they continue to matter in a welfare state, and how they are funded, makes it very difficult to have sensible public discussions about charity. As bad news about charities appears to sell more papers than good news, the media cannot be relied on to help raise the level of public debate. The onus is therefore on charities themselves, politicians, commentators and policymakers to lead in this area by eschewing cheap shots and by not repeating accusations which lack evidence. Mud sticks: problems or misconduct identified at one or a handful of charities can be manipulated to cast aspersions on the entire charitable sector. A charity equivalent of Full Fact493 – with a rapid-response ability to challenge...

489 https://mbsbham.wordpress.com/2015/10/21/sticking-the-boot-into-charity/
493 https://fullfact.org/
misrepresentations - is probably too much to hope for but there need to be clearer expositions of what charities do in order to counter the myths that are easily propagated. Proactively, government bodies and representatives could take a lead in matters such as explaining the need for overheads, defending the right to invest in fundraising, and giving credit when charities achieve significant impact.

5 September 2016
The Tim Parry Johnathan Ball Foundation for Peace — Written evidence (CHA0038)

Submission to the House of Lords Select Committee on Charities (views on charity sector sustainability)

About the Tim Parry Johnathan Ball Foundation for Peace

The Tim Parry Johnathan Ball Foundation for Peace (The Foundation) was founded in memory of two boys, Tim Parry and Johnathan Ball, who were tragically killed in the IRA’s bombing of Warrington in March 1993. The Foundation is an independent charity with no political or religious affiliations and works nationally and internationally to support those affected by terrorism and violent conflict.

The Foundation’s work and reach has grown significantly in recent years and our experience in the field of conflict resolution and peacebuilding means we are well placed to respond to some of the contemporary challenges facing our society. We work with those who have been impacted by war, terrorism and politically motivated violence and our wide range of programmes bring us into contact with individuals ranging from young people susceptible to extremism, women in diverse communities, veterans of conflict and their families as well as survivors and witnesses to acts of terrorism and violent conflict. The Foundation works with Government departments, the Metropolitan Police, local and city authorities, the Irish Government and other Non-Governmental organisations.

Introduction

1. The Foundation has been operating as a registered charity since 1995. The charity was founded in memory of two boys, Tim Parry and Johnathan Ball, who were tragically killed in an IRA bomb in March 1993. On March 20th, the IRA exploded two bombs, without warning, in a shopping street in the town of Warrington in the North-West of England. It was the day before Mothering Sunday and very busy. The bombs in bins created shrapnel that killed three-year-old Johnathan Ball and five days later, 12 year old Tim Parry lost his life. 54 others were seriously injured. The incident shocked the nation and gained worldwide publicity.

2. After the bombing, the parents of Tim Parry, supported by Johnathan’s parents (Johnathan’s parents have since passed away) wanted to gain an understanding of why they lost their children. Colin and Wendy Parry were taken by BBC Panorama to Northern Ireland, the Republic of Ireland and the USA. During these visits, they witnessed work efforts aimed at creating and sustaining peace. They returned inspired, like many other victims, to try and make sure nobody ever experienced
what they had gone through. Funded largely by donations they had received in the aftermath of the bombing, they formed a charitable trust.

3. A scholarship commenced in Tim’s name, bringing together young people from different sides of the conflict to try to understand their differences and also share their commonalities. Wendy Parry had the idea to create a location to house the scholarship and together, they set a vision to build a centre as a living memorial to the boys. The project became a millennium goal and with the involvement of Government and the NSPCC, grew substantially. The iconic Peace Centre opened in 2000. It is a multi-purpose building on a large scale with facilities ranging from residential quarters to a café, sport and art areas to special spaces for conferences and project work.

4. Early work started by undertaking a huge and diverse number of projects and activities ranging from community youth clubs to residential programmes. In 2001 the Foundation undertook a study looking at the specific needs of GB domiciled victims of the Northern Ireland conflict and from this report work began to provide a series of activities to assist those victims. At the same time, conflict was changing, with terrorist attacks in New York on September 11th 2001 and London on July 7th 2005 (the latter remaining the biggest loss of life in a terrorist attack on mainland Britain). In addition, a gradual move to peace in Northern Ireland meant that the Foundation began to develop its capabilities working not only with young people but communities generally in building peace and conflict resolution skills. The Foundation is independent and funded as a charity. We do not take sides, we are not aligned to any conflict, we are not faith or political based and we do not pursue causes such as justice or truth. There is no other organisation that takes such a stance.

**Pressures currently faced by charities and the impact these pressures have**

5. The National Council for Voluntary Organisations’ (NCVO) data website, the UK Civil Society Almanac 2016, states that there are 162,965 voluntary organisations in the UK. Individual donations and purchases are the sector’s main source of income, providing over 40% (around £16.5 billion) of the sector’s total income. Contracts and grants from statutory bodies generate almost as much of the sector’s income. For almost one in ten voluntary organisations, statutory bodies are the majority provider of their income. In 2015/2016, the Foundation’s annual income was £744,000. Funding comes from a range of sources including local, central and international government grants; grant making trusts and foundations and fundraising events.

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494 [https://data.ncvo.org.uk/](https://data.ncvo.org.uk/)
496 N.B. This is not an exhaustive list.
6. Funding and sustainability is undoubtedly one of the greatest challenges facing charities today. Numerous issues have a direct impact on availability of funds, from a drop off in donations, funding and spending cuts to increased demand for services and competition for funds. Charities have to work increasingly hard to raise the money they so desperately need to remain operational. All of this has a direct impact on an organisation’s day to day work – from making decisions about which services and projects can continue running to practical issues about hiring a team to undertake the work. Regardless of how vital and necessary the work of the charity is, funding – and how to retain it - is a time consuming issue for charity chief executives and trustees.

7. In recent times, a number of high profile cases have damaged public trust in charity fundraising methods (particularly in relation to direct mail and donor communications), the most notable being the case of Olive Cooke which prompted a statement by then Prime Minister David Cameron and led to an inquiry by the Fundraising Standards Board (FRSB). Most charities are heavily reliant on individuals and statutory funds, with these two funding sources together accounting for over three-quarters of the voluntary sector’s income (79%). Innovation and creativity is important when considering how to raise funds. For example, only a very small percentage of voluntary sector funding comes from the private sector (4.8%) but the question of ethics is a crucial one for charities and for many voluntary sector organisations, moral decisions about not engaging in partnerships with private companies and businesses that are incompatible with their aims, mean that these sorts of opportunities are not an option.

8. With the number of voluntary sector organisations in the UK standing at 162,965, charities are also competing for funds on a regular basis. There are numerous charities dealing with similar issues. This is often effective and necessary - multiple voices, approaches and expertise is often needed to draw attention to an issue and achieve change - but charities should seek to collaborate and work together whenever it is useful and appropriate.

The current challenges of the financial sustainability of charities and the role of national and local Government with the charitable sector

9. We note that in relation to resources and sustainability, the call for evidence for this inquiry states “As the regulation of charities is a devolved matter in Northern Ireland and Scotland, the Committee will be focusing its inquiry on the experiences of

497 http://www.thirdsector.co.uk/olive-cooke-case-poses-questions-fundraisers/fundraising/article/1348571
499 https://data.ncvo.org.uk/a/almanac16/income-sources/
500 https://data.ncvo.org.uk/a/almanac16/income-sources/
501 https://data.ncvo.org.uk/
charities in England and Wales. They do however want to learn about the experience of charities in Northern Ireland and Scotland, as well as in other countries.\textsuperscript{502}

10. This is of particular relevance to the Foundation as we are a charity working across borders. For example, the Foundation’s Survivors Assistance Network\textsuperscript{503} (SAN) offers practical and emotional support and assistance to victims and survivors of terrorism and political violence, aiming to help heal division and move individuals to help break the cycle of violence. Completely free of charge, it brings individuals and families together and focuses on enabling people to cope and recover after acts of terrorism. Members of SAN are victims, survivors and those affected by terrorism who are located in England and Wales (a small number in Scotland funded by our own charity) and include Irish citizens who may now reside in Britain, veterans of the armed forces and many people impacted by the Troubles, including the injured and bereaved families. We are the only organisation in Britain that provides this work.

We are ineligible to apply for funding from the Victims and Survivors Service Northern Ireland. Neither are we eligible for any funding from the European Regional Development Funds, PEACE settlements. In addition, we undertake reconciliation work within Ireland, Northern Ireland and Britain.

11. We are the only organisation exploring the East-West dimension to a lasting peace and yet sustaining funding for SAN is an ongoing challenge, further complicated by these jurisdiction issues, meaning that a survivor of terrorism living in England will receive support funded by the Ministry of Justice but the support for a survivor living in Scotland has to come from the Foundation’s general fundraising efforts. We have raised this jurisdiction issue in relation to SAN, with successive Governments but it remains unresolved. It is, frankly, shameful that the funding for this work comes from a small grant from the Irish Government (less than €14,000) and the remainder is raised by the Foundation’s own community fundraising efforts. This vitally important work should not be reliant on raffles and tombolas for sustainability. Government has a crucial role to play in charity sector funding, working with organisations that have expertise in relevant issue areas, to deliver high quality services.

Charities’ accountability to their beneficiaries, their donors, and the general public and the role of the Charity Commission

12. The role of the Charity Commission is to register and regulate charities to ensure that the public can support charities with confidence. There is very little entry requirement for anybody to set up and run a charity and for any person to take up a senior executive or non-executive position. While this ability for anyone to pursue a

\textsuperscript{502} http://www.parliament.uk/documents/lords-committees/charities/Charities-call-for-evidence.pdf

\textsuperscript{503} http://foundation4peace.org/projects/survivors-assistance-network-san/
cause with passion and enthusiasm is one of the reasons the charity sector is the vibrant and diverse sector that it is today, it can also be a contributing factor to some charities being unprofessionally run and some areas of the charity sector being unnecessarily overcrowded.

13. For example, in 2014, a report by the Conservative Peer Lord Ashcroft called for more consolidation in the armed forces charity sector. The Veterans’ Transition Review stated that the number of armed forces charities helping the vulnerable is significantly more than the number of those who are likely to need help. The report suggested that for each organisation there are only eight service users. This may be an even larger scale issue. Charity Commission guidance is that organisations should look at collaboration and merger but in practice, this seems to be a rare occurrence. While it is, of course, important that people are encouraged to set up charities to pursue causes and work for the common good, if there is a lack of oversight, professionalism and collaboration, this can lead to ineffectiveness and a lack of impact. An overcrowded market means that the giving pound is spread too thinly and this in turn, has a negative impact on sustainability. The Charity Commission could take steps to look more closely at the number of charities in operation and those working on similar issues, in order to help charities measure and evaluate impact and avoid unnecessary repetition.

14. About 400 new charities are registered each month. There is little differentiation between large and small charities. The sector could benefit some way of reporting return on investment. Charities are asking the public to part with their hard-earned cash and in return, donors need to know that it is going to be spent in the best possible way. In the wake of media investigations into telephone fundraising techniques, the Charity Commission stated that it intended to play a more robust role in investigating inappropriate activity by parts of the sector and in implementing its regulatory role more generally. Greater transparency and increased reporting is hugely important in building public trust, which has been so badly damaged in the wake of these scandals, the aforementioned Olive Cooke tragedy and the collapse of the charity Kids Company in 2015.

The role trustees should play in the performance and effectiveness of a charity

15. There can be no doubt that the role and responsibility of charity trustees has come to wider attention following the questions raised by the collapse of Kids Company. As previously stated, it is relatively easy for an individual to take up a non-executive and/or executive position within a charity with few skills requirements and relatively little experience. This is particularly true of ‘founder run’ charities (charities set up

504 http://www.veteranstransition.co.uk/
505 http://www.bbc.co.uk/news/uk-33788415
and run by someone who –usually – has a very personal attachment to the cause). The Foundation is a founder-run charity but has vast experience of how to avoid the pitfalls. Our founders, Colin and Wendy Parry, have very clearly defined roles within the organisation, making the best use of their professional skills and strengths. We – and they - recognised that additional skills and talent were needed to perform different roles within the charity, ensuring that the founders’ needs were met but that the charity was never compromised and that governance structures and processes were strong.

16. The role of trustees is crucial in any charity. They help safeguard, scrutinise and support the charity. They should not only give their attention to financial matters, but also help measure and question impact and effectiveness. Trustees need to be able to commit time, energy and passion for the cause.

Recommendations

- Consider some form of mandatory training for charity trustees and some form of professional institute.
- Consider specific guidance for founders and their charities.
- Use data collected to look at how many charities there are, money raised, money deployed on the cause and on administration to help and assist charities and encourage transparency and more efficient and effective working.

31 August 2016
Together for Short Lives – Written evidence (CHA0144)

Submission from Patrick McKenna on behalf of Together for Short Lives

About Together for Short Lives

Together for Short Lives is a membership organisation and the leading UK charity for the 49,000 babies, children and young people with life-shortening conditions and all those who support, love and care for them. We support families, professionals and services, including voluntary sector providers such as children’s hospices. Our work helps to ensure that children can get the best possible care, wherever and whenever they need it to secure the best quality of life and best quality of death.

Our representation

Q1. What is the role and purpose of charities in civic society in England and Wales?
   • How does the sector benefit from volunteering?

1. Voluntary sector children’s palliative care providers provide a range of essential services to support children and young people with life-shortening conditions – and their families. These include, but are not limited to: inpatient care; hospice at home; step down care; bereavement support; counselling; family support; complementary therapies; information services; short breaks; and end of life care.

2. Voluntary sector providers, including children’s hospices, bring social value to communities. When the local commissioners remunerate these organisations for the children’s palliative care they provide, the funding is matched and exceeded by charitable donations which also contribute to running services.

3. This is illustrated by Together for Short Lives and Hospice UK’s ‘Commissioning and statutory funding arrangements for hospices in England’ survey, which shows that children’s hospices receive just 21% of their funding from statutory sources.

4. Local volunteers also help to provide children’s palliative care which are part-funded from statutory sources, further adding value. This is demonstrated by the new Family Support Volunteer Project, which is funded by two charitable trusts, coordinated by Together for Short Lives and delivered by organisations working in London, Bristol and Warwickshire, recruiting and training volunteers to work with families in their homes and communities. Through this project, volunteers assist families caring for a life-shortening condition with practical support in their homes. This provides crucial support for families and helps to develop community cohesion.

5. The children’s palliative care sector relies heavily on volunteers to provide care and support for children with life shortening conditions. In 2014 it was conservatively estimated that there are 100,000 volunteers involved in hospice care (both children’s...
and adult), which has an approximate economic value of £112m.\textsuperscript{506} Hospices and children’s palliative care depends heavily on volunteers for service delivery, governance, income generation, and engagement with local communities.

6. Research shows that volunteers bring benefits to children with life-shortening conditions, their families and also to staff. Naylor et al. suggest that volunteers enhance the role of paid staff and also significantly enhance the care experience for the child.\textsuperscript{507}

7. Gurguis-Younger, Kelley, and McKee suggest that professionals have increasingly moved to a more medical model of care, and that volunteers have an ever-more important role to play in bridging the gap by bringing a unique dimension of human compassion as they accompany patients on their journey to end of life.\textsuperscript{508}

8. We believe that the engagement of volunteers and community support is vital in helping remove the stigma and fear of talking about palliative care for children. Wider engagement with children, families and services is vital if we are able to move support for the sector out of the policy and funding shadows.

Q2. What are the main pressures faced by charities currently, and what impact have these had?

9. The government must make sure that regulation of charities does not become overly burdensome in terms of both administrative duties and fees. The introduction of the new Fundraising Regulator, for example, means that charities will have to pay an additional levy on their fundraising expenses and a fee to register with the Fundraising Preference Service. The new fundraising levy is regressive so smaller charities, including children’s palliative care providers, will have to pay a fee that is disproportionately high in comparison to their income and fundraising expenditure.

10. One of our members noted that this new regulatory system will be in addition to them being regulated and paying fees to: The Care Quality Commission; the Information Commissioner’s Office; Companies House; local government (for fundraising licences); and the Charity Commission. For organisations that aren’t large national charities this can prove to be onerous and expensive. There is also a risk that the government will stifle enterprising voluntary organisations in regulations and fees.

11. The charity sector has faced negative press over the last few years due to the actions of a small number of organisations, which has led to a fall in public confidence in charities. YouGov found that only 45% of the public believe that the sector has ‘high ethical and moral standards’, down from 56% just three years ago.\textsuperscript{509} The same survey found that only 38% of the public believe charities are ‘trustworthy’, down from 54% three years ago. In order to improve public faith in charities, the government should boost the

\textsuperscript{506} http://www.togetherforshortlives.org.uk/assets/0000/7989/TfSL_Volunteering__Vital_to_our_Future__FINAL_.pdf
\textsuperscript{509} https://yougov.co.uk/news/2016/03/22/past-few-years-impact-charitable-sector/
Charity Commission’s resources devoted to investigations. The Charity Commission must be fully resourced in order to prevent a small number of charities damaging public confidence in the sector.

12. In addition to sustainable funding, voluntary sector children’s palliative care providers also require a sustainable workforce to provide care and support. Whether or not children with life-shortening conditions are able to exercise choice over how and where their care is provided largely depends on whether they have access to skilled and competent professionals.

13. Children’s hospices hire their medical and nursing workforce from the same ‘pool’ of employees as the NHS. Together for Short Lives’ survey of voluntary sector children’s palliative care organisations (http://bit.ly/1Ltfjqr) shows that they employ approximately 1,500 nurses in the UK. The average vacancy rate for these organisations is 10%, which is higher than the 2015 NHS nurse vacancy rate (7%). This has resulted in two thirds of services reducing their offer of care to families - closing beds, reducing respite care, or having an effect on continuity of care. This survey also shows that over a quarter of nurses for voluntary sector children’s palliative care organisations are over the age of 50 and many of these will be eligible to retire at 55.

14. The voluntary and community children’s palliative care sector has a further recruitment challenge caused by the difference in terms and conditions between NHS and voluntary sector providers – the most commonly suggested reason for nursing vacancies was terms and conditions, including salary, shift systems and annual leave.

15. To make sure that the supply of nurses and medical staff matches demand for children’s palliative care as a whole – and not just from statutory services – the government should ensure that voluntary sector demand is included in demand for public services when forecasting and planning the future workforce.

Q3. How do charities seek to innovate, particularly in the digital arena?

• What barriers are there to being innovative?

16. Charities seek to use the latest digital technology to engage with their service users, supporters and stakeholders. Together for Short Lives’ new interactive maps of children’s palliative care in England are an example of this innovation. However, charities can struggle to keep up with the pace of change in digital technologies due to a lack of skillsets, resources and time. For example, it can be expensive to make sure that a charity’s website is up to date and compatible with mobile devices.

17. In the challenging fiscal climate in the UK, it is increasingly important that statutory, voluntary and private organisations work together to achieve better outcomes for the people they support in the most cost-effective ways possible. This can only be achieved when they collaborate. National and local government can and should take an active role in promoting and supporting these partnerships.

http://www.togetherforshortlives.org.uk/datamap
Q5. What role should trustees play in the performance and effectiveness of a charity?

18. Trustees have three key roles in charity governance:

1. Formulation of strategy
2. Ensuring accountability
3. Shaping culture

19. Formulation of strategy: Trustees should formulate the charity’s strategy, which is then delivered by the executive team. They should not be involved in operational matters, even when the management face difficulties or the organisation is going through a difficult period of change. They should be supportive without interfering in management decisions.

20. Ensuring accountability: Trustees should hold the organisation to account for the effective delivery of the strategy. They should be informed by and shape the intelligence that provides an understanding of needs and information on how the organisation is performing. They should also perform market and stakeholder analyses. The board of trustees should include individuals who between them use their wide range of skills and experience to best effect.

21. Shaping culture: Trustees should ensure that openness and honestly are imbedded within an organisation. They should make sure that there is trust and respect between the chair/trustees and executive members of the organisation. They should also make sure that priority is given to engagement with stakeholders and opinion formers.

Q6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

22. In order to increase transparency and to ensure that Together for Short Lives is accountable to its beneficiaries, donors and the general public, we produce an annual report (2016 report due to be published in September) which details our achievements and outlays in the past year, in a format that is accessible and easy to understand.

Q7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

23. Voluntary sector children’s palliative care providers deliver care and support for children with life-shortening conditions – and their families. However, they receive varying levels of statutory financial support and the government has not set out how these services will be fairly and sustainably funded in the long term.

24. Children’s hospices receive an average of 21% of their funding from statutory sources, which is far less than adult hospices, which receive an average of a third of their funding
from statutory sources.511 The Scottish Government has pledged to bring parity in funding for children’s and adult hospices in Scotland and we would like to see this replicated across the UK.512

25. This average figure also masks a wide variance – 39% of clinical commissioning group (CCG) funding across England supports just two hospices, while one hospice receives no funding at all from their CCG.

26. Funding for children’s palliative care providers is unpredictable, which makes it difficult for providers to plan budgets and to make up a shortfall if their statutory funding is cut. At the extreme, one hospice reported a cut of 41% of their statutory funding between 2013/14 and 2014/15. For services to remain financially sustainable, they must be able to know how much funding they will receive the following year. The continuation of the NHS England children’s hospice grant, for example, is only confirmed on a year-by-year basis which makes it difficult for charities to reliably forecast their income. However, 89% of children’s hospice organisations reported that they may be forced to reduce their services if this grant ceased.

27. Funding cuts to statutory services also have a direct impact on the sustainability of voluntary sector children’s palliative care providers. Anecdotally, local authorities tell us that there is less capacity in the statutory sector to meet the growing demand for short breaks (respite care).513 This is corroborated by voluntary sector children’s palliative care providers: one, for example, has told us that due to significant cuts across all the local authority areas in which they work, it is experiencing an increase in requests for social care support for children with life-shortening conditions. One of its local authorities is planning to shut a funded respite centre for children with complex needs; the council is hoping to re-allocate children to respite foster homes and to the children’s palliative care provider.514

28. Similarly, a children’s hospice told us that cuts to NHS and local authority services mean that they are no longer able to guarantee delivery of their own services, such as supporting patients and the end of life phases to be discharged home if that is their preference.

29. Commissioning and contracting is also too complex for voluntary sector providers of children’s palliative care: on average, every hospice in England has to work with four different local CCG commissioners. Children’s hospices have to work with an average of seven different local CCG commissioners each. To secure funding from CCGs - and manage the various different commissioning and contracting agreements that this

512 https://www.theyworkforyou.com/sp/?id=2016-06-07.3.0
513 A definition of short breaks is available here: https://www.bristol.gov.uk/social-care-health/short-breaks-for-disabled-children
Together for Short Lives – Written evidence (CHA0144)

requires - hospices are having to commit resources which are disproportionate to the limited funding contributions they are receiving in return.

30. The results of Together for Short Lives’ freedom of information requests of CCGs and local authorities in April 2016 support these findings (www.togetherforshortlives.org.uk/datamap).

31. Seven CCGs (4%) and two local authorities (2%) have told us that they do not commission children’s hospices because they are charities. This is despite the Department of Health, NHS England and Public Health England recognising the voluntary, community and social enterprise (VCSE) sector is an important partner for statutory health and social care agencies in playing a key role in improving health, well-being and care outcomes."

32. In order to address these issues, we would like:

a. CCGs and local authorities to implement Together for Short Lives’ guide to jointly commissioning palliative care for children and young people aged 0 – 25.

b. the government and NHS England to communicate commissioning responsibilities more clearly to CCGs and local authorities

c. work with Together for Short Lives to better understand the demand for voluntary sector-provided children’s palliative care

d. the government and NHS England should hold CCGs and local authorities to account for the way they commission children’s palliative care.

e. To ensure that commissioning practices reflect a proportionate approach to commissioning, contracting and monitoring arrangements, guidance to commissioners and their support teams should be strengthened to give them confidence in using appropriate funding arrangements. For example, recognising that the NHS Standard Contract is not always an appropriate tool for arrangements with hospices and other voluntary sector providers.

f. In order to improve the consistency of funding which voluntary sector children’s palliative care providers receive, NHS England should provide clear and more frequent guidance for CCGs to remind them that they are able to provide grants to voluntary organisations – and set out the benefits of doing so. This should include best practice case studies of successful grants given to such organisations.

- How can charities effectively deliver services and be assured that their work achieves successful outcomes?

33. In addition to inconsistent and patchy statutory funding, voluntary sector children’s palliative care providers also face a potentially volatile economy, which could lead to a decrease in the public donations on which they are reliant. Furthermore, local authority cuts to children’s services place additional pressure on demand for voluntary sector services. A report published by the Department of Education in July 2016 shows that spending on children’s services decreased by 9% in real terms between 2010/11 and 2013/14.\textsuperscript{516} While the government has taken action to fill the funding gap for adult social care by introducing the new ‘social care precept’, no such measure has been introduced for children’s services.\textsuperscript{517}

34. Many charities operating in sectors such as children's palliative care are small organisations that are supporting or advocating for small groups of people with high levels of need. The government should do more to support them to develop mechanisms to demonstrate what ‘good outcomes’ are for these groups of people, so that services for them can be commissioned more effectively.

Q9. What should the role of Government be with the sector?
   - What should be the role of the Charity Commission?

35. The focus of the Charity Commission has changed so that it is now primarily a regulator and administrator, rather than supporting and advocating for charities. While it is necessary to have a body regulating the activities of charities, it is equally important to promote the role of civil society and support charities to operate as effectively as possible.
   - How should Government (national or local) focus its resource to deliver its civil society agenda?

36. There is a lack of age and developmentally-appropriate palliative care services for young adults with life-limiting conditions; specifically, there is a dearth of services which can offer short breaks to young people with the most complex health needs. This is a market failure, whereby the services available to not match the needs of these young people. The government should intervene to correct this failure, by providing seed funding to stimulate voluntary sector services to provide age and developmentally-appropriate services to this group of young people.
   - What are the opportunities and challenges associated with local devolution?

37. Local devolution poses a challenge to charities that operate nationally. Together for Short Lives would like to see equitable support for children with life-shortening conditions in each local area. However, our own research shows that voluntary children’s palliative care providers across England have varying relationships with and

\textsuperscript{517}https://www.gov.uk/government/publications/council-tax-in-2016-to-2017
receive highly variable levels of funding from local statutory bodies. For example, while over a third of children’s hospices receive no funding at all from their local authority in 2014/15, a quarter of children’s hospices received over £100,000. Similarly, while one children’s hospice receives no funding at all from CCGs, over a third of all CCG funding for children’s hospice funding in England goes to two hospices.

38. Local devolution of health and social care within England presents a challenge to voluntary sector children’s palliative care providers. These services provide a range of vital services for children with life-shortening conditions – and their families (see para. 1) but receive highly variable levels of funding from local commissioners. For example, while over a third of children’s hospices receive no funding at all from their local authority in 2014/15, a quarter of children’s hospices received over £100,000. Similarly, while one children’s hospice receives no funding at all from CCGs, over a third of all CCG funding for children’s hospice funding in England goes to two hospices. Charities providing children’s palliative care need sustainable funding to continue to provide these services but inconsistent, geographically variable funding threatens this.

39. There is currently no mechanism to hold CCGs and local authorities to account for the extent to which they commission and fund voluntary sector children’s palliative care providers, which inevitably leads to geographic variation and a ‘postcode lottery’ for the children and family who use these services. For example, in response to a written question from Ruth Cadbury MP on commissioning arrangements, the Minister’s response began ‘The Department does not collect information centrally on commissioning of children’s palliative care by clinical commissioning groups.’ This lack of accountability and transparency in how funding is spent is compounded by the fact that there is a relatively small population of children with life-shortening conditions, which means that they are often not a priority for those who plan, fund and monitor health and social care.

40. Health and social care are devolved matters and each country in the UK has taken a different approach to funding and commissioning children’s palliative care. We would like to see each country adopt the new commitment in Scotland, where the Scottish Government has pledged to bring parity in funding for children’s and adult hospices (see para. 24).

6 September 2016


519 http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-04-08/32911/
1. Tree of Hope is passionate about improving the health and lives of sick and disabled children resident in the United Kingdom by providing support and advice to families fundraising for medical surgery, treatment, therapies and equipment which would not otherwise be available to them.

2. With the guidance of medical practitioners in our health care services, Tree of Hope will support families who need to fundraise for medical treatment and therapy within the private/self-funded sector of health in the UK. We will also support surgery and treatment by medical specialists abroad, where the specific knowledge and facilities are available, in order to treat children as quickly as possible.

3. Tree of Hope has helped between 800-1000 families fundraise over £5 million pounds on an annual basis.

*Tree of Hope went through a self-instigated Charity Commission investigation following the departure of the previous CEO of the charity at the request of the Trustees.*

**Background**

4. The charity facilitates fundraising campaigns for families with the funds being raised as donations to Tree of Hope which collects Gift Aid where permitted and maintains a separate campaign fund for each supported child. These campaign funds are reported as restricted funds.

5. Until recently the totality of donations plus Gift Aid less charges made by fundraising sites such as JustGiving was added to these campaign funds, but, as was made clear to the donors, interest or other returns on the funds were treated as unrestricted.

6. Tree of Hope maintains an office and a small number of staff to administer donations which are paid from campaign funds to hospitals, therapists and suppliers to benefit the supported children. Tree of Hope staff advise parents of how to go about looking for solutions to their children’s problems (they do not give advice), signpost to other organisations and charities that may help, advise on fundraising and PR, put families in contact with those facing similar issues and provide a listening ear.

7. The intention when the charity was founded was that the unrestricted funds from interest on the campaign funds and from fundraising by the charity specifically for its administrative purposes would fully fund these support activities.

8. It became apparent that these unrestricted funds were insufficient to cover these support and administrative costs. This had not been visible to the trustees earlier because of poor bookkeeping and unwillingness (or inability) by the CEO to produce meaningful management accounts. Around 20% of the restricted funds (around £1.2m) were, in fact, expended for purposes other than those to which they were restricted.
Consequences

9. The financial model under which the charity operates means that it holds campaign funds for a period of time which often extends to several years. This is because, for example, the funds are being raised over a period of time for one-off expensive surgery, or that they are being raised for a young child for whom treatment is not appropriate until they are of a certain age.

10. It is therefore the case that the charity will always hold a substantial amount – currently around £6m – in campaign funds. It was therefore in no imminent danger of running out of cash, and this combined with opaque bookkeeping and reporting is why the issue was not detected earlier than it was.

Actions taken

11. In May 2015 the trustees became deeply concerned at the lack of transparency in the then CEO’s reports to them, and commissioned an external review of the management and finances of the charity. This revealed the financial issue noted above, and made a large number of recommendations covering a complete overhaul of management, policies and finances as well as dismissal of the CEO.

12. An interim CEO was put in place until a new CEO with a strong financial and charity background was substantively appointed in November 2015. A revised financial model has been adopted which is being used for all new campaigns and was applied to existing campaigns from 1 January 2016. Additional trustees are being sought to allow a greater degree of qualified oversight of the charity’s operations.

13. The charity has been advised by its lawyers that it may invest a portion of the restricted funds in a loan to the unrestricted funds, and a memorandum has been drawn up showing how this loan will be repaid, with interest, over a period of 10 years. Thus, formally, the balance of restricted funds is now restored to what it should be, and unrestricted funds carry the liability of the loan. This was accepted as a course of action by the Charity Commission.

14. The new financial model provides that 7.5% of new donations will be designated by the charity towards its administrative costs, with the balance being credited to the restricted campaign funds. This information is available to the donors and to the parents. This designation will provide an adequate income stream to the unrestricted funds, which will be increased by funds raised by a newly-appointed experienced fundraiser who joined the charity in January 2016.

Recommendations for the Select Committee to Consider

15. We felt that the Charity Commission was both helpful and informative during the investigation into Tree of Hope and should be commended for their fair and balanced approach to the remaining Trustees who were determined to right the issues found. We would like the Commission to remain supportive of Trustees who acknowledge their mistakes and work hard to correct issues and ensure funds are safeguarded. This will help
those concerned at becoming Trustees due to well publicised financial irregularities in the sector to feel they are supported in their role. We urge the Committee to encourage the Commission to share and publish case studies such as ours to further understanding within the sector.

16. However we would like it noted that the ex-CEO of Tree of Hope has now established another charity, based on a ‘no fee to family campaign’ basis, called Just4Children (RCN 1164473) and we have become concerned about the opaque business model at this charity, the apparent use, again, of restricted funds for unrestricted purposes and the donor and family confusion being caused by the duplication of campaigns. We have raised this on several occasions with the Charity Commission and had no knowledge of any action taken to address concerns.

17. Following a letter to our local MP about our concerns about lack of action by the Commission we now know that the Commission is keeping this charity under scrutiny. The response of the Commission is attached. The Commission needs to be open about any action it has taken to complainants and respond to these complaints in a timely and transparent manner so that confidence is maintained in the role and the ability of the regulator to act. Staff, Trustees and parents feel frustrated at the lack of any apparent action and feel a lack of confidence in the regulator.

18. Where a senior employee of a charity has acted without financial probity we would strongly call for that official to be fully investigated with a view to potentially disqualifying that official from senior office within the sector for a period of time if appropriate. This will help with public confidence in the sector. We have contributed to the Charity Commission consultation on this matter and would urge the Select Committee to support this stance.

19. Whilst the Commission points out that the Trustees are ultimately responsible for the proper conduct of a charity in their response to our concerns, Trustees do not have day to day responsibility for the running of the organisation. It seems anachronistic in these days of increasingly complex and business orientated charities that senior executives do not accept responsibilities as they would as Directors of a private or a public company.

20. We would call for a level of mandatory knowledge of governance and finance for all senior charity officials and Trustees for charities of any size, gained through attendance at courses currently run at free or at low cost by auditors, accountants and investment managers who profit from the sector.

21. In the NHS Non-Executive Directors have to sit mandatory online training modules to ensure that have a level of knowledge acceptable to perform their role in an acceptable and informed manner- why not similar for the not for profit sector. Consideration should be given by the Select Committee for both paid Trustee roles for organisations over a certain turnover level and for senior charity executives to be appointed to the Board as accountable Directors to again improve accountability when issues occur.

22. We would also point out that the inability of the Commission to refuse to register charities that replicate or duplicate what is already in existence does nothing to improve the
trust of the public that the sector is run in an efficient and effective manner. A duplicate charity means duplicated infrastructure and would not be an efficient use of funding - the Commission has encouraged mergers in the past and should step up its efforts in this area, ideally with the help of membership bodies and organisations such as the Charities Aid Foundation.

23. Finally it should be pointed out that the notifiable incident guidance from the Commission does not strictly cover the scenario faced by the Tree of Hope. We felt, however, that the incident was serious and that we should be open and transparent with the Commission about the issues found and resolutions planned. We would urge the Select Committee to encourage the Commission to broaden its guidance to include issues of financial probity such as those faced by Tree of Hope as notifiable incidents to further improve public confidence.

24. Should the Select Committee wish to explore any of these issues further we would be happy to meet and discuss them in more detail.

Latest Charity Commission response to our MP Greg Clark included [Not published, held by Committee Staff available on request]

1 September 2016
The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

Many commentators may suggest that charity contradicts libertarianism and that all social needs can be addressed by a well-functioning social system but the UK’s social system is increasingly failing due to the limited financial resources available from the UK Government to address the ailments affecting our society.

The role of charities in our society is absolutely essential, both domestically and internationally. Charities are a major pillar in the proper functioning of our society, and without them, the society we live in would be a much darker place.

However, TFF believes the sector is in dire need of review due to the following statistics:

- There are far too many charities in the UK leading to significant duplication of resources and inefficiencies. There are 165,290 charities in England and Wales, which equates to one charity per 347 people, with many charities addressing exactly the same issues.

- The annual income of these charities, at the end of 2015, was £70 billion but this is highly polarised into a small number of charity ‘brands’, which have often lost sight of the reason for their charity being setup in the first place.

- The UK charity sector receives £17.9 billion each year from taxpayers, made up of £13.3 billion of income from Government and £4.6 billion of tax relief to charities and individuals. This is more than the amount spent on sizeable Government departments e.g. the Home Office (£13.2bn) or Ministry of Justice (£7.8bn) and yet there is very little proper scrutiny of the effectiveness of this sector either by the Government or the Regulator (the Charity Commission).

- Totalling overall annual income, including the economic value of 20 million volunteers, equates to a £93.9 billion industry employing over 800,000 people.

How has this changed?

In an increasingly divided society, resulting in groups of isolated or vulnerable groups that are hidden in a ‘tale of two Cities’ scenario, it is vital to have small community charities that operate the coalface ad are trusted and accepted by marginalised groups.

However, the sector has changed in that the UK charity sector is now dominated by large charities who receive the vast majority of funding from both the public and Government - charities with over £10 million of annual income account for just 0.4% of organisations by number, but 48% of the sector by income.
The TFF believes that without sector reform thousands of smaller, often innovative and effective smaller charities and projects are under threat of disappearing. Many communities depend on these grassroots charities.

There is also an increased concentration of charities and projects in wealthy areas e.g. London, rather than the areas of greatest need.

- What makes them distinct from other organisations doing similar work?

Small charities in particular are embedded in the community and as such form a stabilising force in terms of the foundation the social structure of our society. Without them the wellbeing of many differing groups would suffer.

These organisations are also uniquely placed to spot trends, be innovative and collaborate with communities themselves to identify social solutions.

- What role can charities play in community cohesion and civic action?

See above

- How does the sector benefit from volunteering?

Whilst the economic value of 20 million volunteers is significant, TFF does not believe that the true value of volunteering has been explored. To have a mainly healthy retire population with a wealth of knowledge, experience and expertise not being utilised or offered an opportunity for ‘value volunteering’ is a huge waste of the investment we have made into individuals over decades.

TFF proposes a system of ‘volunteer vouchers’ that can be modelled on the childcare voucher system, that would benefit both society and retirees in terms of the well-known physical and mental benefits of staying active and being a useful member of society. Sadly, the talents of many elderly volunteers are being squandered by large charities giving them menial jobs within their charity shops rather than using their talents for better use in the charity and within society at large.

- How has the status of volunteers changed?

Our findings are that traditional volunteers, in charity shops in particular, or being exploited, bullied and abused. There is a culture of denial within many large charities and their various trade bodies rather than properly address the scandals within the sector that are so prevalent.

There needs to be a status change in terms of volunteering, especially in term of volunteers with special needs or disabilities who are treated as free labour, and given little feeling of self-worth, including any financial remuneration.

- What challenges do charities face in trying to fulfil their role in civic society?

There is an increasing trust deficit as more and more scandals hit the sector.
The evidence in our research reports leads us to believe that, judging by key financial performance indicators, the charity sector has a considerable way to go to demonstrate it is operating at all efficiently for the benefit of their stated various charitable objectives. We have found that US charities are significantly more efficient as measured by several key financial indicators than their UK equivalent. The tax incentives and expenditures funded by the UK government and UK taxpayers do not incentivise efficiency or effectiveness. Neither do they penalise waste and excess within the sector.

- How can these challenges be overcome?

TFF questions the effectiveness of self-regulation on a modern day charity sector or the size and complexity that now exists in England and Wales. TFF believes that self-regulation is not working, since it is failing to ensure the best return on investment – private, public and corporate - thereby maximising the benefit for those for whom the charitable activities are designed to benefit.

We believe the efficiency weaknesses in the UK charity sector requires urgent remedial action by Government as poor outcomes are damaging the entire sector, with all charities suffering from decreased public trust. The money being handed over to predominantly large charities, either through granting or commissioning, is an attempt to fill the gaps being left by cuts to public services. This money should therefore be open to full financial scrutiny. Any charity not willing to lay itself open and transparent to full financial scrutiny, should not be allowed to receive public funds whether directly through grants or indirectly through tax reliefs.

**Recommendations:**

2. There should be a periodic three-year review of organisations’ charitable status to judge if they operating as a true charity, a social business or a straightforward ‘for profit’ entity. There are numerous charities with charitable status, purely a result of history rather than merit.

3. There should be an urgent review of the rules governing the granting of charitable status due to the duplication, lack of collaboration and inefficiencies in the sector.

4. A good practice benchmark for spending on charitable activities over a set period to be introduced. TFF’s recommendation is that this is set at 65% over rolling three-year periods - with pre agreed exceptions. Charities no longer meeting such a target should no longer receive government aid/relief until such time as the target is met.

5. A ‘Give & Good label’ should be introduced across all fundraising materials and charity websites so donors can clearly see a breakdown of their donation in terms of how much goes to the end charitable activities, how much is spent on fundraising and governance costs and how much goes to reserves. This would restore trust in the sector were it to be independently monitored.

7. Gift Aid should be restricted to the percentage of a charity’s income spent on charitable activities, rather than any other expenditures. This would incentivise charities to be more
efficient, whilst the money saved by Government could be better spent e.g. on innovative local community projects in the most deprived areas which tend to be bereft of charities, or on encouraging social entrepreneurs.

8. Any charity, over an agreed limit, receiving Gift Aid or any other form of Government funding should be subject to the Freedom of Information Act.

9. The role and value of ‘traditional’ charity shops should be urgently reviewed. The mandatory 80% minimum business rates relief for charity shops should be reduced by 10% a year to 50% in three years’ time. This would reduce the unfair playing field for other high street operators and dampen the rate of growth in store openings. There may also need to be a fundamental rethink regarding the efficiency, role and positioning of charity shops on high streets.

10. A best practice maximum benchmark for fundraising and governance costs as a percentage of overall income should be introduced by the sector, if not by the Charity Commission. TFF’s view is that this should be c. 25% over rolling three year periods.

11. The Financial Reporting Council (FRC) should urgently introduce a new format for the charity Statement of Recommended Practice (SORP). TFF’s research concludes that the current format of the SORP is not fit for purpose in terms of providing donors with key financial information they require in a clear and understandable format. Many of the proponents of the SORP were seriously conflicted as their organisations received substantial income from auditing charities and are keen to keep their paymasters happy by maintaining the status quo of incomprehensible and illogical accounts.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?

- What opportunities do charities have in the current environment?

Unrestricted funding is a huge issue for smaller community charities. They may have restricted funding, including from commissioning but as donors focus solely on impact, these charities have very little to run the organisation.

In terms of commissioning, large contracts / grants are being won by large charities, but there is a need to support smaller, specialist organisations in accessing public service contracting.

Innovation

3. How do charities seek to innovate, particularly in the digital arena?

- What more could be done to promote innovation, and by whom?

There is much that can be done with digital platforms to bypass intermediation in terms of connecting volunteers, businesses and academic institutions to local social projects and
charities that can benefit from aid. TFF suggests a digital platform akin to those being run by innovative property search engines could be employed in the charity sector to resolve the sustainability issues many small charities and projects are experiencing, and which are likely to significantly increase in a post-Brexit scenario.

In terms of building trust, innovation around a ‘Compare the Market’ or ‘Trip Advisor’ type online platforms that can assist donor’s confidence.

- What barriers are there to being innovative?

Governance and leadership

4. What skills are required to lead and manage a charity?

- How can these skills be gained?

- What support exists to develop these skills within the charitable sector?

5. What role should trustees play in the performance and effectiveness of a charity?

Trustees should have greater fiduciary duties in terms of senior executive remuneration, including pension provision and any other benefits within any registered charity.

- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?

- What, if any, changes might this mean for current arrangements?

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

Charities are the subject of legitimate public interest and scrutiny. This is not only due to the implied contract they have with donors that money will be spent on their charitable purposes, but also due to the significant tax benefits charities receive, predicated on the principle that the lion’s share of their efforts and expenditure is for the public benefit.

To be properly accountable there needs to be hugely increased transparency that balances Cost, Charitable Expenditure and Impact

- What, if any, changes might this mean for current arrangements?

See recommendations

- How should charities assess their long term viability and/or sustainability?

Charities need to be far more business-like in terms of strategy, efficiencies and multi-stream funding / revenue generation, rather than the begging bowl culture that still dominates. That said, they need to be less extravagant in terms of offices, overheads, executive remuneration packages and marketing / advertising.
The charity business model is fundamentally different to the business model employed by regular companies and self-interested individuals. Their model is not about profit, but about pursuing a non-monetary interest. And having organisations with this alternate business model is as vital to our society as organisations with standard profit-driven business models.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?
- How can these challenges be overcome?
- How can best practice and information be shared across the sector?

This is an area where a digital platform would also be invaluable as it could host best practise templates, administrative documentation and collaterals, fundraising idea etc.

- What lessons can be learnt from past mergers or dissolutions of charities?

The efficiency gains from mergers and collaboration are indisputable – e.g. prostate cancer charity mergers

- How can charities effectively deliver services and be assured that their work achieves successful outcomes?
- What are the benefits and challenges of funding for charities being derived from commercial contracts?

Social investment

8. What is the potential of social investment and social impact bonds?
- What are barriers to fulfilling their potential?

There are significant consumer / investor issues with social investments in our view as transparency champions. If you strip away the hype and slick marketing, there is a worrying lack of transparency from lenders and very little focus on the needs of charities and social enterprises. For example, the very few investors in the Scope Social Investment Bond (SIB) realised the target £10m was for opening more shops, rather deliver of their charitable service.

As the Founders of TFF are investment professional with collectively over 48 years’ experience, the idea of ‘social investment’ suggests finance instruments which offers something different to what is on offer from banks or other mainstream investors. The idea that there are enough organisations underserved by our mainstream financial services to enable the creation of an entire new market to be met by socially motivated investors and for this all to still stack up financially is simply not backed up by any data.

The role of the Government
9. What should the role of Government be with the sector?
- What should be the role of local Government?
- What should be the role of the Charity Commission?

There is a huge issue with funding of the Charity Commission but TFF suggests looking through another lens. In the US and Canada charity report and accounts are sent to the equivalent of the HMT, as with every other business report and accounts. This would not just elevate much of the administrative burden of the Charity Commission, but require charities to abide by the same levels of financial stewardship and transparency as all other businesses.

- Have these relationships changed? If so, how?
- How should Government (national or local) focus its resource to deliver its civil society agenda?

Governments don’t tend to spend ‘charitable money’ in an effective way, because politicians win votes by handing money out and boasting about it, rather than by achieving goals.

A model TFF would suggest requires serious consideration is government micro-loan program, instead of social investments or social bonds which are incredibly successful at providing people with the capital to get an education or start a small business, with very high payback rates, enabling the money to be recycled rather than swallowed up.

- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?
- What are the opportunities and challenges associated with local devolution?

Lessons from other sectors and countries

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

A more rigorous system of financial oversight and accountability is necessary. TFF suggests the charities submit their report and accounts to HMRC whom are experts in this field of financial review. Relieving the Charity Commission of this responsibility would allow them to better use their resources to regulate the sector; akin the US and Canadian charity sector reporting which is via their tax authorities rather than charity regulator.

5 September 2016
The UK Sustainable Investment and Finance Association — Written evidence (CHA0125)

1. Thank you for the opportunity to contribute to the Select Committee on Charities’ inquiry into the sustainability of the charity sector and the challenges of charity governance. We appreciate the chance to put forward our views which focus on issues surrounding charity investment. Our response is therefore directed towards questions 8 and 9 of the call for evidence document. Feedback from our members has been that these questions are probably unhelpful, and that they should be broadened, giving more focus to the potential for charities to invest in-line with their objectives.

2. UKSIF is the membership network for sustainable and responsible financial services in the UK. We promote and support sustainable and responsible investment (SRI) and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. We have around 240 members and affiliates including financial advisers, institutional and retail fund managers, pension funds (including local government schemes), banks, research providers, consultants and NGOs.

3. We would define social investment as an investment strategy which seeks both a social and a financial return. It is therefore important to understand that there are two key aspects in relation to social investment and charities. First the potential for social investment and social impact bonds as tools by which charities can further their own mission, where the majority of this response is directed. These have the potential to be useful tools, although this is only one route a charity can take to further its social mission or invest in-line with its objectives. Second, social investment as a means by which charities can raise capital to ensure their own sustainability and that of the sector more generally, which is addressed in paragraph 12 and 13.

What is the potential of social investment and social impact bonds?

4. Despite a clear and increasing appetite for social investment, some charities have tended to be cautious of this new area of investment. For many charities, due to the obvious correlation between their mission and a resulting “measurable social return”, social investment is a good option. Nonetheless, social investment has yet to reach its potential for a variety of reasons. Some investments may be illiquid or

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520 For more info about UKSIF, please visit www.uksif.org.
volatile, in some cases investors are concerned about value destruction. We have heard of some charities being reluctant to invest their capital at all, let alone via the social investment route and it is not a given that charity boards will understand what SIBs are. This is still a nascent market and objective assessment of factors such as diversification, past returns and illiquidity may be harder due to a shorter track record (although this will be overcome as more evidence becomes available). Currently these types of investments may be considered more risky than traditional investment because of this. A lack of understanding is therefore a crucial barrier to uptake of social investment.

5. In particular better understanding is needed around the degree to which investors can achieve both a financial and a social return both legally and financially. Charity trustees tend to use fund managers or financial advisers. We have heard of a ‘distribution challenge’ where these intermediaries do not include social investment in their list of permitted investments and so the investments are not made. In this situation a lack of understanding amongst the intermediaries themselves is the barrier.

6. Feedback has been that the faith market is particularly well placed to correlate investment decisions with the mission of the charity. Some investors are uncertain whether they are in breach of their fiduciary duty if they do not adhere to their stated objective. Since it is easier to correlate investments with mission, the potential for social investment is higher in the faith market.

7. Every year UKSIF commissions polling for Good Money Week in relation to savers’ views on their investments. This year it revealed that 54% of people with savings want to make a “positive difference” as well as a return. Standard Life commissioned polling revealed a positive correlation between positive values and youth with 58% of millennials wanting to invest in companies that achieve positive social outcomes, and 51% wanting to invest in ways that minimise environmental damage. More millennials have investments or savings than at any other time in recent memory, mainly thanks to automatic enrolment. This is proof not only of the existence of a social investor, but a far larger pool of social investors than had been predicted previously. Prudent charities should start to consider these views and the extent to which they are prevalent amongst their members and supporters, as well as their own impact on society and the environment, in order to stay competitive.

What are the barriers to fulfilling their potential?

8. Quantitative and qualitative data is vital to enable investors to assess businesses’ ability to create value over time. It would also be extremely helpful in enabling charity investors, or those wishing to meet a stated mission, to understand how an investment could help them achieve their social objective. Over the past few years there has been an increased focus on transparency and corporate reporting. These

521 UKSIF member feedback.
developments are welcome and have represented an increased recognition of the importance of sustainability factors in business performance. In our submission to the BIS consultation on non-financial reporting\(^{522}\) we called for the government to ensure that ‘non-financial information’\(^{523}\) was included in the strategic report because it provides detailed information to stakeholders on a business’ ability to create value over time. We would go further than this and call for fully integrated reporting on sustainability factors. Far from being a burden on business, integrating financially material sustainability concerns into business models would ease year-end reporting. It would also enable investors of all types to fully assess the universe of impactful investments available to them, further driving the benefits to society and the environment. This would vastly expand the supply of impactful investments as well as remove any concerns over scalability. It would also force all enterprises to seriously consider their impact on society and the environment, making this a mainstream concern, rather than relying on the niche universe of investible assets. A recent Eurosif and ACCA study showed that 96% of investors agreed or strongly agreed that quantitative KPIs are essential to assess corporate sustainability performance, while 76% agreed or strongly agreed that qualitative policy statements are essential.\(^{524}\) Improving this data would support social investors of all types, but be a particular boost to charity investors wishing to achieve their mission without necessarily going down the social investment route.

9. Legal clarity is vital, not just in social investment but in charity investment more generally. The leading case for ‘ethical’ investment remains *Harries* and there is a lack of appetite from the Charity Commission and OSCR to issue guidance on such areas despite the fact this case took place 25 years ago. Regulatory steer tends to be prioritised for areas where there are problems, or those which relate to risk. The recent legal opinion by Christopher McCall QC has resulted in further uncertainty for charity trustees in relation to their fiduciary duties and responsibilities. For Ownership Day 2016 UKSIF published a report on the fiduciary duties of pension and charity trustees which goes into more detail on the opinion and outlines our views.\(^{525}\) McCall drew a distinction between what he terms ‘latent’ and ‘patent’ conflicts for trustees. Patent conflicts are where an investment conflicts with the charity’s objective and so the charity must divest regardless of financial consequence. This may be the case where a cancer charity holds stocks in a tobacco company. Latent conflicts are where the conflict is less obvious and the trustees must weigh the risks to the charity’s work against the risk of divestment. Here concerns on how investments affect the community and the environment will require more thought. McCall goes on to say:

10. “It is for charity trustees to determine whether there is a link between the specific purposes of a charity and the dangers posed by the investments concerned, such as in

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\(^{523}\) Since this information is financially material this term is a misnomer and therefore unhelpful.


the case of carbon intensive assets, in the light of the prevailing evidence. Though the conflict may not always be clear cut I think it at least arguable that investment in carbon intensive assets could be said to be irreconcilable with the intent behind charities with:

a. General or specific environmental purposes;
b. General health purposes;
c. General poverty purposes;
d. Other purposes relating to matters where the properties of carbon intensive assets and the consequences of dangerous climate change are of particular concern.”

11. These conflicts may be material to charity social investors. This lack of clarity over the law may therefore present a barrier to increased social investment by charities and we have called on the Charity Commission to update its CC14 guidance to address the McCall opinion as a matter of urgency. It is worth noting the most recent update to the guidance, published on August 1st, on social investment by charities did not address this.

Raising capital through social investment

12. In the wider context of the sustainability of the charity sector, some charities may wish to raise capital from social investors. In our response to the FCA’s call for input on the regulatory barriers to social investment we highlighted some concerns with the ability of charities to raise money from the general public for social investment. The motivations for securing income from the general public are varied and include a more diversified investor-base, raising awareness for the work of the charity, and forging deeper connections with the communities in which they operate. There are clear financial benefits to charities from raising money from a wider range of sources and for increasing the sustainability of the sector more generally. The Government has been supportive and introduced various useful initiatives to encourage more investment from the public, but in understanding what more can be done it may be useful to look at international models, as outlined by Big Society Capital.

13. One potential barrier to growing the social investment market is the introduction of rigid definitions. Some charities may begin to look towards social enterprise models to achieve their objectives via business solutions while also ensuring their own financial sustainability. In our submission to the Cabinet Office’s mission-led business review, and as we have alluded to already, we urged caution against stringent definitions of social enterprises. The Minister’s statement that ‘every business could, if it wished, be a mission-led business’ was welcome and we argued

that the core principle of making a profit and having a social impact should not be reserved for small or new businesses. Many UKSIF members invest in businesses – large and small – which aim to tackle many of the social issues faced throughout the country and we note that the Government has been extremely helpful in supporting the development of the UK’s social investment market. Generally, however these members are better positioned to invest in large companies or those which are scalable. Too rigid-a-definition of what a social enterprise should be and what social investment involves is a potential barrier to social investment and the Government should understand this before any changes are made following its review.

What should the role of Government be with the sector?

14. The government can play a role in further supporting social investment by and into charities in the UK in the ways we have already described. To sum up:

a. More joined up thinking is required across government on ways in which social investment can be boosted. This is unlikely to be made easier with the transfer of the Office for Civil Society from the Cabinet Office to DCMS.

b. The Department of Business, Enterprise and Industrial Strategy should support an increase the quantity of businesses reporting on sustainability issues. This will help increase the universe of investible assets for social investors and help charity investors determine which investments can further their stated mission (and which run contrary to it).

c. The FCA must ensure regulatory barriers affecting charities’ and social enterprises’ ability to raise capital e.g. from the general public are addressed.

d. The Cabinet Office must ensure that any actions it takes including a potential definition for social enterprises is not so stringent that it restricts the universe of investible assets for social and charity investors.

e. The Charity Commission should issue guidance following the McCall opinion to ensure charity trustees are have clarity over their legal duties and responsibilities.

f. We have had feedback from members that the Charity Commission should be given more powers to ensure standards are being met particularly given the negative press surrounding some high profile charities over recent years. Some have called for the Commission to play a role in regulating charity portfolios.

g. Supporting new forms of investment such as crowdfunding from the general public to place the sector on a more sustainable footing.

5 September 2016
Unite the Union — Written evidence (CHA0105)

Unite the Union — Written evidence (CHA0105)

Unite is the UK’s largest trade union with 1.4 million members across the private and public sectors. Unite represents over 250,000 workers in public services, including 60,000 in the Community, Youth and Not for Profit Sector.

Executive Summary

- There should be a comprehensive re-evaluation of the role of charity and not for profit organisations and their relationship with the State, with funding designed to support their independence, advocacy and additional role rather than being used to replace state provision of core public services
- There should be an urgent review of funding for the sector with a return to grant funding as the norm as the most appropriate funding system for the sector.
- Cuts are disproportionately impacting on charities, particularly small and medium sized charities dependent on Local Authority funding. This is leading to vulnerable people losing vital services.
- There is a need to improve the diversity of the charity workforce with an end to unpaid internships, forced volunteering and increased funding to support high quality paid apprenticeships, as well as entry level positions for young people from diverse backgrounds
- Unite supports improved standards and innovation through greater coordination and collaboration in the sector with minimum standards hardwired into all funding and the creation of sector wide national collective bargaining systems between employers and charity staff trade unions. Government has a vital role in promoting this.

1. Introduction

1.1 Unite the Union is the largest union in the not for profit sectors, representing over 60% of all union members, in over 6,000 organisations. These include members in social care, housing associations, the arts, trade unions and professional bodies, mental health, cancer, disability, poverty and children’s charities, education, youth and play organisations, legal, advice, guidance and community organisations, faith bodies, international aid organisations, environmental NGOs, campaign groups, animal welfare charities, as well as numerous non-governmental public bodies, funding agencies and umbrella bodies.

1.2 In the run up to the 2015 general election Unite carried out a major survey of a broad range of members across these subsectors which was the basis of Unite’s post-General election report presenting our vision of the sector. Some of the comments and graphs from this survey are attached in the appendix at the end of this document [held by Committee staff and available on request]. While some of the policy may have moved on Unite firmly believes that this report remains relevant and salient around the issues facing the charity sector.

1.3 Unite welcomes this important investigation by the Lords Charity Commission\textsuperscript{529}. There should be a comprehensive re-evaluation of the role of charity and not for profit organisations and their relationship with the State, with funding designed to support the independence, advocacy and additionality of not for profit organisations rather than use them to provide statutory public services on the cheap.

2. The purpose of charities

\textit{What is the role and purpose of charities in civic society in England and Wales? - How has this changed? - What makes them distinct from other organisations doing similar work? - What role can charities play in community cohesion and civic action? - What challenges do charities face in trying to fulfil their role in civic society? - How can these challenges be overcome?}

2.1 Unite members have been grappling with this crucial issue for some time. Over the last two decades government policy has fundamentally reshaped the role of voluntary and community sector organisations\textsuperscript{530}. While experiences are diverse, many Unite members have reported that current policies have undermined their charities and other not for profit organisations, with attacks on their policy and advocacy role, as well as their ability to provide evidence of the impacts of government policies on service users and clients. Government has slashed funding and the remaining resources have been concentrated in ever larger organisations with less community control. This in turn has reduced the diversity and innovation within the sector and made many feel that their organisations have been co-opted and restricting from speaking out\textsuperscript{531}. Some commentators have raised concerns about the impact of this on services and service users, while some organisations have become vehicles for outsourcing parts of the state, rather than effective independent partners\textsuperscript{532}.

2.2 Unite members have developed a different vision for the role of charities, advocating a return to the principles of “voluntary action” and strong independent voices that can hold governments and other power structures to account. In Unite’s view charities should not be used to replace state provision of core public services, but rather have a vital role in building innovative additional services and providing independent advocacy voices to drive improvement, accountability and reform. Such voices will be diverse, ranging from small informal community campaigns, groups and mutual organisations to large national charities and international NGOs, all contributing a positive role in our democracy.

2.3 At the core of Unite’s concern is the changing nature of government funding models with more and more organisations dependent on government contracts rather than

\textsuperscript{529} \url{https://www.parliament.uk/documents/lords-committees/charities/Charities-call-for-evidence.pdf}
\textsuperscript{530} The state of charity: a lecture by Dr. Frank Prochaska, September 2015
\textsuperscript{531} Independence under threat: the Voluntary Sector in 2013, The Baring Foundation, 2013
\textsuperscript{532} NCIA Inquiry into the Future of Voluntary Services, Working Paper 5, Outsourcing and the Voluntary Sector, Laird Ryan, May 2014
grants. Grants from the public sector have declined from £6 billion to £2.2 billion in the last 10 years\(^{33}\), and the latest huge cuts to local authority funding will only increase the scale of the problem, as communities lose both Council and voluntary sector services. This is particularly impacting on small and medium sized charities\(^ {34}\).

2.4 The result is many have been pushed further and further away from their founding principles and lost the ability to deliver independent campaigns, undermining their ability to innovate and challenge government where necessary, a concern echoed by many sector leaders in private. It has also meant that the focus of their work and activity is increasingly driven by commissioners and funders, rather than growing out of the expressed needs of communities. This can generate cynicism and lack of engagement, as charities are not always able to respond to local priorities, or to sustain relationships over a longer period than a project funding cycle.

2.5 Unite members believe that this is a major loss as not for profit organisations often have a mass of evidence about social issues and possible solutions, but this is rarely used for anything other than monitoring. Unite believes that a return to a strong advocacy role can help improve public services by using the sector as a critical friend to statutory agencies to build greater understanding of where services can be improved and where they are having positive impacts.

3. **Volunteering**

- How does the sector benefit from volunteering?
- How has the status of volunteers changed?

3.1 Unite is a strong supporter of volunteering, with much of the union’s own work done by voluntary activists and representatives across the country. This sector is heavily reliant upon the goodwill and kind nature of volunteers but there is a fine line between engaging volunteers and using them to replace paid work.

3.2 Unite believes that volunteering is a huge benefit to our whole society and is the driving force behind the community and voluntary sector. Unite does however stress that there must be emphasis on genuine volunteering, rather than the use of volunteers when paid staff would be more appropriate. Unite members have raised concerns that as resources become tighter far too many employers are replacing formerly paid roles with volunteers. This has particularly fed the concerns about unpaid internships in the sector which have been replacing entry level jobs in many organisations.

3.3 The sector would benefit from far greater clarity and employment protections particularly around definitions of employment and volunteer status. Tackling this issue would get rid of the confusion surrounding what should be a paid job and what can be


\(^{34}\) http://fundraising.co.uk/2016/02/11/smaller-charities-hardest-hit-by-funding-cuts-research-shows/#.V811AfmAOkO

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voluntary and could be part of wider reforms needed to tackle exploitative practices such as zero hours contracts.

3.4 Too many people are being coerced to work for free, either by employers evading national minimum wage legislation or by government schemes for those unable to find paid employment. Unite opposes forcing the unemployed to work for free for the voluntary sector on any kind of workfare/work experience programmes (recent FOI releases show that the practice was wide spread535). This is why we joined up with hundreds of not for profit employers to support the Keep Volunteering Voluntary campaign536 opposing forced workfare volunteering and is also challenging the use of unpaid internships in the sector.

3.5 To support real volunteering and volunteers Unite has co-written a good practice guide for volunteers alongside the major volunteering agencies in each of the four UK countries537. A key element of this is to support a protocol agreed with the TUC about avoiding the use of volunteers to replaced formerly paid work. Unite would like to see governmental and legislative support to strengthening this protocol.

3.6 It also needs to be recognised that volunteering is not free. Agencies need funding to cover recruitment, support and supervision and volunteer’s expenses in many cases. This adds value to the role of a volunteer, while support and recognition goes some way to keeping them on board. Good volunteering often requires engagement at a very local level, and local authorities should be encouraged to have volunteering strategies, co-produced with the voluntary sector.

3.7 Another way to reduce burdens on volunteers, workers and employers in the sector would be to streamline the disclosure and barring process for example with a “driving licence” style card, which was portable to avoid repeating the same process. This would serve the double purpose of saving organisations money and time.

3.8 Lastly the cost of living crisis has meant that many people are in tough times working longer or multiple jobs to feed their families. Free time is therefore scarce. Promoting volunteering therefore needs to go hand in hand with tackling the UK’s low pay and long hours employment culture, and encourage employers to provide more flexibility and time off to volunteer.

4. **Pressures and opportunities**

What are the main pressures faced by charities currently, and what impact have these had?
- What opportunities do charities have in the current environment?
- Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

536 [http://www.keepvolunteeringvoluntary.net/](http://www.keepvolunteeringvoluntary.net/)
4.1 By far the largest pressure on charities is the need for sufficient and stable sources of funding. While it was ever thus, the Government policy of public sector cuts, especially to local authority budgets, has had a major impact on many charities leading to redundancies, restructurings and in some cases complete closure. Cuts have had a disproportionate impact on not for profit organisations as local authorities and other funding bodies have passed on the cuts. At the same time, more members of the public are turning to agencies in the sector, as they lose support from statutory provision, so demand is rising and in many cases charities are having to turn people away. This is particularly true for agencies offering services focussed on those in poverty.

4.2 Trusts and foundations are reporting huge pressure on their grant programmes, with high levels of competition meaning that many excellent projects and organisations close simply because the overall funding is not sufficient to fund all good quality applications.

4.3 There needs to be an urgent halt to the huge cuts to funding with proper analysis done on the impact of those cuts to communities and the false economies that they produce e.g. it is estimated that the national annual investment of £1.6 billion in housing-related support generated net savings of £3.4 billion by avoiding costly acute services (Capgemini 2009). Similar figures can be produced for cuts to legal aid funding and the knock on effect of service users relying on more costly acute services due to lack of support early on.

4.4 There needs to be a comprehensive review of the sector and the services that have been lost as part of the Government’s ideological austerity agenda. In particular this should look at youth and play work, legal and advice services, arts, disability support and mental health services. Local Councils need to be able to use their reserves now to protect vital services for their local communities and government redistribute funding to councils based on demographic needs.

4.5 Unite has long been campaigning for fair and sustainable funding for the not for profit sector. Many organisations in this sector (especially those working with vulnerable service users) will always be dependent on state funding, but the short term and volatile nature of funding decisions is affecting organisations’ ability to plan and develop.

4.6 Funding grants and contracts should cover the full costs of delivering the services and be guaranteed for a minimum of 3-5 years if not longer. Similarly the renewal or removal of funding should give organisations ample notice (6 months – 1 year).

4.7 Unite members report that the deepening use of competitive commissioning to fund many charities is driving a race to the bottom. Employers increasingly undercut each

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540 http://www.thirdsector.co.uk/charities-have-turned-people-away-rising-demand-funding-cuts/policy-and-politics/article/1378710
other to win bids to run services at a cost that results in them having to cut both staffing levels, and their pay and terms and conditions. This is unsustainable and is leading to severe damage to the services affected – e.g. in social care. Unite therefore believes that there should be an urgent review of funding for the sector with a return to grant funding as the norm as the most appropriate funding system for the sector.

5. Innovation

How do charities seek to innovate, particularly in the digital arena?
- What more could be done to promote innovation, and by whom?
- What barriers are there to being innovative?

5.1 A well paid workforce with excellent conditions is key to innovation and success in the voluntary sector. More government funding at local and national level and more stable long-lasting funding is essential for this. Competitive tendering of services, with poorly designed targets and a downwards pressure on wages, terms and conditions are a major cause of insecurity and stress, all of which impacts on morale, staff retention and the capacity to innovate.

5.2 Investing in training and skills are a core part of supporting staff to innovate in the sector. Unite members would support more regional opportunities for people to develop their skills and expertise and to promote innovation and excellence as well as developing understanding of digital skills. This would require investment and funding to be a meaningful success. High quality training would also help to deal with some of the regularly occurring issues affecting the sector such as poor management cultures, bullying and stress.

5.3 The sector is increasingly limited in the backgrounds of its staff and more should be done to ensure that young people from a diverse range of backgrounds can get work experience in the sector by making sure they are paid at least the real Living Wage for internships. Unite has joined up with InternAware to campaign against the use of unpaid internships in the not for profit sector as they are elitist, excluding people who cannot afford to work for free and are being used to replace previously paid jobs in the sector. The practice is uneven but Unite’s research has previously shown that around 40% of the largest charity employers engage unpaid interns, while Unite members report that these roles are often criteria for accessing certain funding streams.

5.4 Providing opportunities for young people is vital to a thriving sector, and talented young people currently face huge barriers to joining the sector. There is a need for creative funding support for community organisations in order to offer high quality paid apprenticeships, internships and entry level positions for young people in the voluntary sector. These should be for sufficient time for the young person to gain real experience and agencies would need to show that the young person would be able to develop real skills as well as meeting a social need. Young people could approach agencies that they

had a particular interest in working for and be able to access funding for those roles. The new apprenticeship levy could be an opportunity to develop these practices in the sector.

5.5 There is also a real need for funding for innovation and experimentation in relation to social need rather than just technological innovation. Funders must recognise that innovation includes the possibility of failure. For this to happen government funding bodies must be allowed to use procurement to drive standards up, allowing procurement to be based on more than just lowest cost. This should include social and environmental clauses such as the promotion of collective bargaining that would raise standards creating a level playing field for organisations seeking funding which would lead to greater innovation rather than a race to the bottom.

5.6 Unite believes that there should be a radical re-thinking of the ways in which services are designed, which fosters and rewards collaboration, and which includes service users and front line workers in the design of services and of indicators of success from the outset, and which allows for creativity and flexibility to ensure that provision genuinely meets the needs of the community.

5.7 Unite would support an approach which required Local Authorities to have a real strategy for the sector, which had involved the sector from the outset, and for which some funding could be available to deliver local partnership work – especially in relation to the need to tackle emerging issues such as food poverty.

5.8 Lastly some local authorities have developed areas of good practice in relation to the sector, and government should do more to share this information and create opportunities to learn from each other.

6. **Governance, leadership and management**

*What skills are required to lead and manage a charity?*
- *How can these skills be gained?*
- *What support exists to develop these skills within the charitable sector?*

*What role should trustees play in the performance and effectiveness of a charity?*
- *How can trustees be best equipped, enabled and supported to fulfil their responsibilities?*
- *What, if any, changes might this mean for current arrangements?*

6.1 Management is a crucial issue in the charity sector. Short term funding and austerity cuts mean that many organisations are regularly managing crises, sadly those organisations often do not have management with the skills or training to deal with the crisis effectively. Of all the sectors Unite organises in it is the not for profit sector where issues of poor management, stress and bullying rank the highest concerns. As described above tackling these issues require stability and investment.

6.2 Unite is calling for far greater coordination and leadership in the charity sector to build and alternative agenda to that of cuts and competition. Government should work with infrastructure bodies and unions to develop a new framework for the not for profit
sector that promotes its independent voice as a key cornerstone of our democracy while putting its funding on a sustainable footing.

6.3 Poor management is also driving several serious issues relating to employment rights in the sector. Zero hour contracts are a growing problem driven by funding arrangements like payment by results, personalisation and contracts based on services delivered. Unite is calling on government to ban these contracts that cause such insecure employment with no guaranteed hours or income\(^{543}\).

6.4 The Government has cut back on employment rights for people working in micro-businesses and on fixed term contracts e.g. health and safety. These changes have disproportionately impacted on the not for profit sector workforce due to the number of people working under these conditions.

6.5 Similarly, TUPE legislation has never been fit for purpose in the not for profit sector and was undermined further during the Coalition Government and now potentially by the outcomes of BREXIT. Many employers are avoiding any obligations to workers that are transferred into their employment either through contracts transferring or mergers. This has led to a race to the bottom that can only be halted through clear obligations from funders and legislation to strengthen TUPE protections.

6.6 It must be recognised that problems such as low pay, exploitative employment contracts and the race to the bottom are intrinsically linked to poor management and the decline in collective bargaining coverage and union membership density across the UK\(^ {544}\).

6.7 Pay and collective bargaining coverage in the diverse sub-sectors that exist in the sector is far too low. While the sector is diverse, Unite believes that there is significant scope to extend collective bargaining and workforce planning to break the constant trend to cut pay and terms. This would help harmonise up pay and terms as well as bringing other benefits such as proper pension provision and joined up training in the sector.

6.8 Government funding should support collective bargaining arrangements by hard-wiring pay and conditions into all funding streams. Those organisations in receipt of work from the public sector where collective bargaining exists, e.g. health, local government, should be included as part of those agreements e.g. the JNC Pink book for youth workers in Local Government.

6.9 For those organisations where there is no obvious existing collective agreement the Government should facilitate their creation. There are many employer bodies within the sector but these do not currently take any responsibility for creating a better structure of industrial relations and workforce planning. The one exception to this is in the housing sector in Scotland where a national collective agreement exists between

\(^{543}\) [http://www.unitetheunion.org/campaigning/saynotozerohourscontracts/]

\(^{544}\) [http://www.bbc.co.uk/news/business-19521535]
Unite and the Employers in Voluntary Housing (EVH) covering around 300 employers. Government should work with unions and employer organisations to build a fair system of industrial relations in the sector that protects service users and workers from market excesses.

6.10 Lastly there are wide variations across sector in relation to access to pensions. Statistics are not available for the numbers of sector staff covered by a workplace pension, however due to the large proportion of organisations not previously providing any pension provision, auto-enrolment is a significant issue for Unite members in the sector. This is affecting both small organisations that will have to provide a pension for the first time and large organisations that may find it difficult to fund their scheme due to increased take up. Collective bargaining and sector-wide coordination would help deal with this problem.

7. Accountability

How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

- What, if any, changes might this mean for current arrangements?
- How should charities assess their long term viability and/or sustainability?

7.1 The Charity Commission is a crucial vehicle for providing meaningful transparency, and proportionate regulation. Government should provide the Charity Commission with sufficient funding to carry out its job of regulating the sector and providing advice and support for charities.

7.2 Unite is concerned however that the role of the Charity Commission is being politicised. There is a growing perception that the Charity Commission is disproportionately targeting Muslim charities. Similarly, there are growing concerns about its role as a tool of government attacks on campaigning charities, e.g. through a Charity Annual returns consultation that focus attention on charities campaigning activities, or enforcement activities against Oxfam before the last election.

7.3 The Charity Commission should not be used as a political instrument but instead should focus on providing the regulatory framework that allows charities to flourish while reinforcing public trusts, transparency and good governance. Revelations about the Big Society Network for example underline the need for this to be robustly enforced.

7.4 It is crucial that the sector commands public support. Unite is strongly in favour of charities being able to speak out about issues that they are coming into contact with (e.g. UK poverty, the use of food banks or suffering of disabled people) which the current government has criticised. This is a crucial part of charity and their vital advocacy role.

http://www.evh.org.uk/content/
7.5 Unite is however extremely concerned by serious issues such as tax avoidance and the granting of charitable status to what amount to private companies providing private services such as private schools, or health care.

7.6 The Charity Commission should be proportionate with its enforcement role, distinguishing between genuine errors of judgement or expertise and deliberate attempts to defraud. The former of these should lead to enabling support and remedies as part of any enforcement. This needs to be based on realistic targets and plans that are proportionate and focussed on prevention and improvement.

8. Resource management

What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

- How can these challenges be overcome?
- How can best practice and information be shared across the sector?
- What lessons can be learnt from past mergers or dissolutions of charities?
- How can charities effectively deliver services and be assured that their work achieves successful outcomes?
- What are the benefits and challenges of funding for charities being derived from commercial contracts?

8.1 Unite believes that the not for profit sector must not be used as a cheap replacement for public services, nor as a stalking horse for the private sector in public sector outsourcing – e.g. through pressure to create social enterprises in the health sector and encouraging them to bid for contracts.

8.2 Unite is strongly concerned about the procurement agenda and policies that are driving it. Public service reform, competitive tendering and privatisation, particularly where not for profit organisations are being used to deliver formerly statutory services, often on reduced terms and conditions and budgets. Unite believes that core public services are best delivered by the public sector, with the not for profit sector having a distinct complimentary role offering specialist services and independent advocacy and campaigning work.

8.3 Where services are delivered by the not for profit sector Unite is not convinced that tendering is the best way to commission services, especially where it opens those services up to private providers and a race to the bottom. Unite believes any government funding should have terms and conditions of employment clearly specified and protected in the agreements so that where competition is taking place it is solely on the basis of quality rather than cost.

8.4 Certain procurement policies such as payment by results and personalised budgets have been disastrous to many organisations and their staff. Such funding arrangements have been instrumental to the increase of zero hours contracts in sectors such as social care while payments by results make it impossible for small and medium sized organisations to engage with contracts. These large contracts with payment in arrears will not deliver
Unite the Union — Written evidence (CHA0105)

the quality work that is needed to support communities effectively and in some cases have led to private companies acting as an intermediary sub-contracting work to the local not for profit organisation that actually understands local user needs.

8.5 Unite would favour an approach which prioritised collaboration between government and consortia of smaller, locally based organisations with much more openness about what success would look like. Local authorities should be instrumental in working with such consortia to plan services, both statutory and additional, and ensure that there are locally responsive services, which can work flexibly enough to respond to changes in the local economy and which work from the basis that service users should be able to set some of the goals.

9. Social investment

*What is the potential of social investment and social impact bonds?*
- *What are barriers to fulfilling their potential?*

9.1 Unite members share concerns about the introduction of social investment models of funding such as ‘Social Impact Bonds’ and ‘Pay by Results’ systems of funding. Their proponents claim this makes services more efficient and fills a gap in funding for preventative services that the public sector is often unable to fund.

9.2 Unite members are concerned that these systems are in practice being pushed as a market replacement to traditional mechanisms of funding such as grants and donations, displacing donor funding leading to donors to now “invest” in funding social programmes for a return rather than benevolent giving. This drives a focus around narrow measurable performance outcomes and market culture change that gives donors much greater say in how funding is spent.

9.3 Members are also concerned that they are likely to skew money towards larger more business like organisations rather than the traditionally more affective smaller community organisations and those that look at creative or holistic service design that many organisations would prefer to run. That is most likely to penalise advocacy, arts and alternative community organisations. Coalitions of organisations also find it hard to access these funds as their contributions and outcomes are dispersed through member organisations.

9.4 It is also a major concern that social impact bonds are being used as a way to fund services that were previously run by the public and or voluntary sectors and reflect a broad based creep of neo-liberal financialised culture in to the not for profit sector.

10. The role of the Government

*What should the role of Government be with the sector?*
- *What should be the role of local Government?*
- *What should be the role of the Charity Commission?*
- *Have these relationships changed? If so, how?*
Unite the Union — Written evidence (CHA0105)

- How should Government (national or local) focus its resource to deliver its civil society agenda?
- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?
- What are the opportunities and challenges associated with local devolution?

10.1 The sector’s relationship with government needs to be reshaped with the Government taking a hands off approach to the sector’s activities and instead concentrating on building coherent support, regulation and infrastructure that enables the sector to develop and excel, building infrastructure skills and funding that strengthens autonomy and advocacy. Key to this will be the repealing of the Lobbying Act and repeal changes to reduce the ability to use Judicial Review to hold Government to account.

10.2 Not only did the Lobbying Act reduce opportunities for charities to campaign on behalf of their members/service users but the government is now attempting to stop organisations from using public funds to campaign on behalf of positive change. Charities cannot be party political, which is right and proper, but they must be able to shine a light on what is going on amongst low income households and the catastrophic impact of government policies and cuts (of whatever party) and provide evidence to call for improvements.

10.3 Unite is concerned that systems of accountability in the sector such as the Compact are not fit for purpose, being largely ignored when politically expedient. This must be revisited to build a framework which is both better understood and recognised across the sector and given the necessary teeth to prevent government from simply ignoring it when expedient. Government should consider emulating the powerful “Declaration of interdependence in children’s services” produced by children’s charities in England and the TUC546.

10.4 Unite believes that accountability needs to be radically strengthened and extended with policies designed around better supporting all types of organisation in the sector from micro and small, to large and international and real systems of redress from arbitrary decisions from funders. This would mean an approach focused on relationships and community engagement and representation, rather than simply viewing the sector as a provider of tendered services.

10.5 The sector’s major value is through advocacy, independence and additionality. Local and national voluntary sector organisations often have an ability to engage with communities who do not engage so easily with statutory agencies, and thus complement other provision. Market forces have failed whole sections of the community and it is therefore important that an approach should be taken which looks

at how the sector can assist in narrowing the gap in opportunities between people of different backgrounds.

5 September 2016
1. The United Kingdom Accreditation Service (UKAS) is the national accreditation body for the UK. UKAS is recognised by government to assess, against internationally agreed standards, organisations that provide certification, testing, inspection and calibration services. UKAS is independent of government but is appointed as the national accreditation body by the Accreditation Regulations 2009 (SI No 3155/2009) and operates under a Memorandum of Understanding (MoU) with the Department of Business, Energy and Industrial Strategy, on behalf of government as a whole.

2. UKAS recognises the importance of the charitable sector and acknowledges the contribution it makes to British society. However, UKAS also recognises the need for improved governance of charities and for charities to be properly accountable to their beneficiaries, donors and the general public. UKAS believes that a system of accredited certification could be used to improve the governance and performance of charities overall by providing an independent assessment of the charities and/or trustees against agreed standards. Accreditation by UKAS would ensure that the independent assessments are carried out in an effective and impartial manner.

3. As well as providing a quality improvement tool for the charities themselves, the certification of charities could provide a useful adjunct to the regulation of the sector by providing the regulator with a reliable indicator of those charities that operate to a recognised standard. The standard(s) could be drawn up by the regulator and/or the representative bodies in the sector (e.g. NCVO, ACEVO, IoF) covering such elements as customer service, financial stewardship, fundraising activities, competence of staff and good governance. The NCVO’s PQASSO standard might provide a good starting point for this activity.

4. The representative bodies could also be responsible for the certification of the charities for compliance with the standard(s). Alternatively, the certification could be carried out by specialist certification bodies. UKAS currently accredits some 150 certification bodies for a variety of certification activities and it would be relatively simple to extend the scope of accreditation for a number of these bodies to carry out the certification of trustees or charities. In this scenario, the representative bodies could still be involved in the preparation and maintenance of the standards. Certification could be voluntary, on the part of the charities, or could be mandated by the Charity Commission, perhaps for charities over a certain size.

5. The certification of trustees would provide greater confidence in their ability to provide good governance. Clearly it would be impractical to expect all trustees of every charity to be
certified but it might be reasonable to expect that every charity above a certain size, or perhaps every charity in receipt of government funding, should have at least one certified trustee. The standard drawn up for trustees could specify the requirements in terms of knowledge, experience, accountability etc as thought appropriate by the regulator and/or representative bodies. Again the certification could be carried out by the representative bodies or by the specialist certification bodies. More might be expected of those certified trustees in terms of their governance role in the same way that trustees with relevant professional qualifications are currently expected to carry a higher burden of responsibility than completely lay trustees. The presence of a certified trustee would give the regulator confidence that the charities are being properly managed.

6. As the Government appointed National Accreditation Body, UKAS accreditation provides assurance of the competence of organisations carrying out certification, inspection and testing activities. UKAS accreditation provides a rigorous but business friendly approach to compliance. UKAS accreditation is a repeatable and continuing process ensuring that the certifying organisations maintain their levels of competence for the task in hand. Accredited organisations are required to pay for UKAS accreditation but it is considered that the costs and rigour of the accreditation process can be justified by the reliability of the outcome. Accreditation is carried out against internationally agreed standards and mutual recognition agreements between national accreditation bodies provide international recognition for UKAS accredited certification.

7. The certification of charities and/or trustees would support the accountability of charities to beneficiaries, donors and the public by providing an independent demonstration that standards are being met. Equally, the use of accredited certification would allow Government to set top level policy direction for the charitable sector whilst leaving the sector itself to manage the detailed maintenance of standards. It would allow the Charity Commission to focus on those charities that are not able to demonstrate that they meet the required level of performance.

8. The use of UKAS accredited certification as an indication of regulatory compliance is well established in other areas. The Environment Agency has a published policy of recognising accredited certification to ISO 14001 (the international standard for environmental management systems) in their approach to enforcement. They use it to inform their Operator and Pollution Risk Appraisal (OPRA) scheme under which businesses are graded according to the level of risk they present to the environment. Businesses with accredited certification for their environmental management system receive credit in the risk assessment process leading to reduced environmental levies. The Environment Agency is also able to reduce its inspection effort for those businesses with accredited certification.
9. Similar considerations apply to ISO 22000, the international standard for food safety management systems. This standard provides a framework to help businesses to manage food safety hazards in order to ensure that the food chain is safe. It can be used by any business regardless of its size or position in the food chain. Accredited certification to ISO 22000 is used by the Food Standards Agency in assessing risk and targeting inspections, particularly in relation to large food processing businesses.

31 August 2016
vInspired — Written evidence (CHA0118)

What is the role and purpose of charities in civic society in England and Wales?

Civil society charities in England and Wales have retained the core principle of serving others and society since the first charity was registered in the twelfth century. Charities seek to improve society by working on a specific cause or issue, whether that be single issue such as breast cancer, or on a broader topic such as volunteering or child poverty. Each charity differs in its methods of delivery, fundraising and desire to influence the policy of government in the country they primarily operate in and where delivery takes place, as well as other governmental and non-governmental organisations.

While this core principle is central to the purpose of the charities sector as a whole, each charity has its own purpose, specified in their articles of association and monitored by their trustee board. This is distinct to the board of a profit making organisation whose focus is the profit of the company. While trustee boards and the senior management teams of charities have to ensure the charity’s financial sustainability, there is no profit driver and once financial sustainability has been assured, charities are able to direct all income into the core focus of the charity.

How has this changed?

While charities have traditionally sought to collaborate wherever possible, assisting each other to achieve mutual and sympathetic aims, this has become more difficult over recent years and charities are increasingly working in silo.

There are a number of reasons for this. While many charities would still preference collaboration over working separately, particularly on shared goals, the increase in project and restricted funding makes this more difficult, particularly as funding may specify who the charity can work with. In addition the need to win funding drives competition between charities as they chase the same pots of money available, meaning there are less open conversations between charities about plans, learnings and sector wide development.

As well as increased competition between traditional charities for funding and for reach, there has been a seeming growth in ‘social businesses’ who are entering the sector.

These businesses are distinguishable from traditional charities in three distinct ways. Firstly at their core these businesses have no distinct purpose and no aim, other than to find, win and deliver contracts, in contrast with those traditional charities who work in and on a singular, or at distinctive public policy arena. They consequently do not necessarily have the same level of expertise on the issue in question as traditional charities, instead focussing on developing a high level of expertise in fundraising to ensure a steady stream of work. Unlike traditional charities the work social businesses do is often for-profit, suggesting that when they compete with traditional charities for contracts they create profit from those contracts, creating additional complications surrounding the regulation of what are often, public funds. For registered charities, regulation is conducted through the Charity Commission. For social businesses regulation is less clear, despite them often being in receipt of similar levels of public funding and delivering contracts, potentially from governmental organisations.
emergence of such organisations as raises broad questions of what it means to be a charity and what the meaning and implications of charitable status are.

**What role can charities play in community cohesion and civic action?**

Charities are key actors in community cohesion and drive civic action. For many people charities provide, what is often, the only opportunity that is readily and immediately available to take part in civic action. Those who volunteer with charities often dedicate large amounts of time and energy to a cause within their community, enabling them to feel rooted in the area in which they live to provide a genuine sense of community. This is particularly true for young people, especially during periods of uncertainty and transition as they become adults, transitions we know are becoming less linear and increasingly complex.

It is also important to understand what creates social cohesion. vInspired, while reviewing our strategic aims undertook a literature review which looked into the factors that developed community cohesion. One of the pre-cursors of community cohesion for young people is social capital. Putnam (1993:167) talks from a communitarian perspective and states:

‘Voluntary cooperation is easier in a community that has inherited a substantial stock of social capital. Social capital here refers to features of social organisation, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions.’

Charities help build networks of people, particularly of those who have volunteered and those who have interacted with people while they are volunteering, that reinforce positive social norms such as trust. This social capital is a precursor for community cohesion.

The government itself responded to the Commission on Integration and Cohesion outlined three foundations of an integrated and cohesive communities. These three foundations were:

1. People from different backgrounds having similar life opportunities;
2. People knowing their rights and responsibilities
3. People trusting one another and trusting local institutions to act daily

The response also set out the three ways of living together for a cohesive community:

1. A shared future vision and sense of belonging
2. A focus on what new and existing communities have in common alongside a recognition of the value of diversity
3. Strong positive relationships between people from different backgrounds

vInspired and other charity partners seek to build social cohesion through targeted volunteering opportunities, recognising that there are particular groups of people whose social capital has been moderated, whether that be by ethnicity, socio-economic background, locality etc. in order to build up their social capital. There are also a number of youth social action projects that aim to mix young people with others from different backgrounds in order to build understanding.
How does the sector benefit from volunteering?

The sector benefits hugely from volunteering, with volunteers donating large numbers of hours to support charitable activity. For many charities, their activities are only viable because of the contributions of volunteers. In addition those volunteers often go on to contribute financial resource to the causes they support.

There is also a group of volunteers that are often not recognised as such. Charity trustees take on the responsibility of ensuring the legal compliance and financial sustainability of the charities they govern. Trustees bring their expertise and skills, which they have developed, often over years or decades of work, and donate them for free to ensure the smooth running of a charity.

How has the status of volunteers changed?

The status of volunteers has remained the same for a number of years. For young people this can prove to be a difficulty, especially given the development of a number of social action projects by organisations such as vInspired and City Year UK that are full time. These programmes mean young people are unable to work full time while taking part in these programmes. As such there is an appetite to offer those young people that take part in the programme with a stipend to ensure that, at the very least, it does not cost a young person to take part.

This however is not currently possible, due to the static status of volunteering in the UK. In the US a separate legal status was set up to ensure that young volunteers could take part in these programmes. This option is one that should be considered in the UK, to ensure that the opportunities these programmes offer are available to young people from a diverse range of background; maximising impact and ensuring the mix of participants necessary to develop understanding.

What are the main pressures faced by charities currently, and what impact have these had?

One of the key challenges facing the sector surrounds project and restricted funding. While these pots of money offer the opportunity for charities to work with new partners, develop new programmes and work on specific delivery areas, it does not usually account for core service delivery or infrastructure development. This means that while there is lots of work happening to ensure that projects are delivered and outcomes are met, there is work that may be duplicated or is less efficient because of a lack of investment in infrastructure.

Indeed the need for charities to constantly find and chase funding for their work risks charities simply following the money. While it is not necessarily a bad thing for funders, whether they be governmental or non-governmental to specify how the funds they provide should be spent, it does present a risk to the diversity of the work that takes place in the sector, as each organisations tailor their programmes and work towards that which is most likely to get funded. This in turn means that programmes that are less desirable to fund, whether that be new work that hasn’t yet been proven to provide outcomes, but have the
potential to significantly improve outcomes for young people, or work where outcomes are longer term and less demonstrable within a short time period are less likely to be delivered, potentially missing out on new areas of work, or new methods or formats for delivery that provide improved results.

This also creates an additional risk in relation to sustainability. If the vast majority of money going into charities is restricted income, it becomes difficult for charities to put money into reserves and leaves many charities with reserves far less than good practice dictates.

**How do charities seek to innovate, particularly in the digital arena?**

As touched on previously in this document, the prevalence of project and restricted funding has made it difficult for charities to invest in digital infrastructure. There are however organisations that are making a concerted effort to create digital infrastructure for the charity sector.

At vInspired, as part of our ambitions to deliver better and more meaningful experiences for our users, we are redeveloping our digital offer, website and volunteering platform with a clear cut vision and purpose - to be the support structure for the youth volunteering and social action sector. This focused intent derives from our core purpose to get more young people volunteering and forming a lifelong habit of doing good. This is why we will be building towards and delivering on this vital infrastructure.

Our new platform will operate on multiple levels. We are taking into account the wider context volunteering and youth social action experiences sit in, whilst attempting to factor in all the granular interactions – right from the overall design of our volunteering ‘marketplace’ to the look and feel of a user profile. Our ambition is to provide the nudges that will not just encourage more young people to find a take part in high quality volunteering, but also help a wide range of people to recognise the skills gained through participation.

We will work collaboratively and design a platform that supports charitable organisations gain volunteers and makes it easier for organisations to encourage their staff to volunteer – we want a volunteering a social action platform to be responsive, connected and useful for everyone.

**Governance and leadership**

**What skills are required to lead and manage a charity?**

- How can these skills be gained?
- What support exists to develop these skills within the charitable sector?

Leading a charity is a fast-paced, diverse and demanding role, it requires a broad range of skills from financial management to strategic development, from policy to communications and, of course, a commitment to the cause the charity works to improve. There are a number of challenges involved in gaining those skills. Firstly there is the broad topic of sector development. While there is some work done within the sector to learn from other charitable organisations (although this too is limited), there is very little work done to take
learning from different sectors, allowing leaders and future leaders to learn where the charitable sector needs to develop and where they sector is already developing new and innovative ways of working. This is becoming particularly important as charitable organisations seek to diversify their income, and face, alongside organisations from across all sectors the need for constant digital innovation. Additionally to this is the challenge of training and talent management. In sectors where there is large amounts of unrestricted income and it is understood that success is based, in large part on the personnel within the organisation, there is dedicated resource for training and talent management. This allows organisations to not only develop their personnel but also to retain them. For many charitable organisations however this is not available. As well as huge pressure to spend money only on delivery and restricted income that makes it much harder to set aside resource for talent development, it is also difficult to retain staff, who are often you and driven and move between posts quickly. Without dedicated emerging leaders programmes or a concerted effort by the sector to retain its talented personnel there is a risk that as they gain more skills they seek employment in other sectors.

5 September 2016
Executive Summary

1. In England and Wales there are almost 1,663,000 people living with sight loss. (1) It is unclear exactly how many charities support people with sight loss in England and Wales, the estimate is 340 (2).

2. People living in socio-economic deprivation are less likely to access primary eye care services and are therefore at a greater risk of avoidable sight loss. (3) This in turn increases pressure on Health, Social Care and the Voluntary Sector.

3. Reductions in local authority budgets are impacting Visionary members (4)

Introduction

4. Visionary is a registered charity which provides support for ‘local’ visual impairment charities in the UK. Current membership stands at 117 local sight loss charities. In addition to this there are 8 associate members, 3 individuals and 6 National Organisations. The membership is diverse with some members operating purely with volunteers, whilst others may have over 100 employees. The range of work carried out by the Visionary members differs greatly, with some organisations offering limited services, whilst others run commissioned services or provide residential units. Visionary are aware of 131 charities in the UK who are not part of our membership but work to support people with sight loss.

5. Visionary have members throughout the UK. For the purpose of this inquiry Visionary will respond using the views of members in England and Wales which have been gained either through a member survey in January 2016 or member calls during 2016.

Role and purpose of charities

6. Charities have a role in campaigning on behalf of their beneficiaries, either at local level or through a collaborative approach regional and Nationally.

7. Volunteers are vital to the ongoing delivery of services or support to visually impaired people. This is crucial when funding streams have been reduced.

8. Having an over reliance on volunteers can hinder the growth of a charity.

9. In the 2016 survey of members, 41 organisations replied to the question how many volunteers did the charity have. The response was 5385 volunteers.

10. Members were asked how many staff they had in post, the total was 946 employees.
11. Ensuring compliance with Volunteering Legislation is important, and keeping up to date with any changes in legislation can at times be difficult due to conflicting organisational demands, costs of training.

**Pressures and opportunities**

12. Applying for funding and access to grants, trusts and contracts is, our members say one of the biggest challenges they face. The issues raised included:
- the time involved in applying for funding;
- limited resources within organisations
- Due to restricted funds, some members are unable to apply for larger grants or trusts due to limitations imposed by funders.

13. Some members ‘buy in’ the expertise of fundraising consultants, or seek to work with other charities to share resources so as to apply for grants and funds.

14. Members who deliver commissioned services are experiencing financial constraints due to Local Authority budget reductions. The contracts and commissioned services they operate are being reduced financially; however members are expected to deliver the same outputs and outcomes.

15. Developing a hub and spoke model to support smaller charities can ensure that services continue to be delivered.

16. There is scope to work collaboratively with organisations from outside the sight loss sector to deliver services. Some members are adopting this approach by working with other charities for example Age UK, local Hearing Impairment charities.

17. A challenge for members who are situated in more rural counties is transport provision. Visually impaired people cite transport as one of the biggest barriers to accessing services, taking public transport can be difficult, meaning people are reliant upon taxi’s (5). This reliance on taxis increases the costs to visually impaired people, which can leave them isolated and not attending services.

**Innovation**

18. The development of assistive technology for visually impaired people has increased dramatically in recent years. The desire for members to create mobile phone applications which can assist with orientation and mobility is growing amongst members. The barriers to moving forward on this are the cost of developing and maintain app’s of any kind.

19. Some Visionary members have reported that they would like to engage more through social media, but feel that they require support to access training, either financially or through staff resources.

**Governance and leadership**
20. Collaborative working with other organisations impacts on the charities' Governance, meaning that Association Agreements need to be revised or drawn up.

21. Members have cited access to training as being a barrier due to geographical location of training or charity; time constraints on staff, freeing up key members of staff to attend training can be costly to a charity and also impact on their operational functions.

22. Financial assistance has been requested to enable charities to develop managers/employees through training.

Accountability

23. In 2015 Visionary and CES conducted a scoping exercise and found that the common themes for limited outcome collection was due to staff time, insufficient data collection tools available. The scoping exercise also identified that cultural change in the organisations presented barriers to recording outcomes. Reductions in finances also had a detrimental effect on a charities' ability to record outcomes, although it was recognised that outcome measurement was vital for securing future funding. From the findings of this scoping exercise members identified the requirement for learning support in measuring outcomes, evaluating their work and the impact charities have. Visionary determined that members wanted to attend training sessions regionally, to reduce transport costs and travel time for key staff members. 59.1% of respondents wanted to attend the training so that they could use their findings for learning and development of the services they deliver.

24. Visionary was able to provide a training package in conjunction with NCVO/CES to Visionary members. This training has increased member knowledge and understanding of the importance of outcome measurement to those members who were able to attend. A barrier for some unable to attend was location, cost, limited staff availability and conflicting priorities.

Resource management

25. One member cites working together to prevent duplication of work, and reduce the risk of competing for the same funding opportunities.

26. Through the creation of Association Agreements – charities have a clear framework to adhere to when working together to deliver services.

References

2. http://www.charitychoice.co.uk/charities
5. Thomas Pocklington trust, 2016. *Additional costs of living for people who are sight impaired or severe sight impaired.*

*29 September 2016*
Key messages

Third sector provider organisations offer a unique contribution to social care which is characterized by:

- Service delivery
- Championing the rights of people who experience social inequality
- Developing innovation
- Building social capital, including volunteerism

Pressures which are impacting on charitable care and support providers are:

- Cuts in public sector spending
- Increasing costs associated primarily with the introduction of the national living wage, pensions auto-enrollment, apprenticeships levy and other pressures
- Approaches to public sector commissioning
- Staff recruitment and retention
- Public perceptions of care services

Opportunities include technological advances and the development of innovative services for people with learning disabilities and mental health needs.

In order to support investment in technology, third sector social care providers need services to be commissioned on a “whole life” basis rather than on fixed hourly rates.

We are particularly concerned to ensure that the governance requirements of charities continue to support a strong user voice at board level.

Third sector care and support providers are regulated and/or inspected by a wide range of public bodies and there is much that could be done to harmonise their requirements.

There is significant potential for social investment, particularly in housing for people who access care services, but there needs to be greater stability in the social care market for this to be realised.

We propose that government should be focusing on the following domestic agendas:

- The sustainability of the social care market
- Joined up working between health and social care

We are concerned about the constraints which have been placed on charities speaking out on policy implementation issues and call for Lord Hodgson’s review recommendations to be implemented in full.
Introduction

1. VODG (Voluntary Organisations Disability Group) is a national charity that represents leading not-for-profit organisations who provide services to disabled people in ways that promote independence, choice and control. Our members work with around a million disabled people, employ more than 85,000 staff and have a combined annual turnover in excess of £2.5 billion. Though diverse in terms of their size, history and individual strategies, our members share common values. These are clearly discernible through work that promotes the rights of disabled people, approaches to citizenship, user choice and control and in successfully delivering person-centred services.

2. VODG works on behalf of members to influence the development of social care policy, build relationships with government and other key agencies, promote best practice and keep members up to date on matters that affect service delivery. Our overarching aim is to ensure that VODG members, working in partnership with commissioners, people who use services and their families can provide progressive, high quality and sustainable services that reflect Think Local, Act Personal\textsuperscript{547} principles, uphold rights and meet the requirements of disabled people.

3. VODG welcomes the opportunity to submit this representation to the Select Committee on Charities. We use this submission to draw out those issues most relevant to charities which are disability care and support providers and to the people they support.

Context

4. There are 9.9 million disabled people living in England who represents 19 per cent of the overall population\textsuperscript{548}. This includes a significant number of working age adults who require support with their mental health, or who have learning and social or behavioural impairments.

5. The Centre for Disability Studies\textsuperscript{549} estimates the growth in the numbers of adults with physical and learning disabilities:

- Support will be required for an additional 6,000 to 46,000 young adults with physical disabilities over ten years. This equates to a ten-year growth rate of between 32% and 239%.
- Between 37,000 and 52,000 adults with learning disabilities will require support over the next ten-year period, resulting in a growth rate of 26% to 37%.

\textsuperscript{547} Think Local, Act Personal \url{www.thinklocalactpersonal.org.uk/}


6. Alongside these ‘working age’ trends, the number of older people is rising. The latest Census data demonstrate 9.2 million older people aged 65 years and over, with 52 per cent of people living with a long-term health problem or disability. This includes a far greater proportion of the population aged 85 and over.

The purpose of charities

7. Third sector organisations offer a unique contribution to social care which is characterized by:
   - Service delivery
   - Championing the rights of people who experience social inequality
   - Developing innovation
   - Building social capital, including volunteerism

8. There has been a rapid expansion of the charitable sector’s role in public service delivery over the last 20 years. The aggregate cost of social care services provided by third sector organisations is estimated to be at least £7.2 billion per year. Of all public service areas, social care is thought to have the greatest involvement from the third sector.

9. Third sector social care and support providers have a long history of championing the rights of those who experience social inequality. Enabling people to maximise their capabilities and exercise control over their lives remains core to their purpose and activity. In the last 20 years the personalisation agenda, now enshrined in the Care Act, has developed from this philosophy.

10. This focus on rights and giving people a voice underpins third sector providers’ approach to innovation. For example, VODG member Turning Point has developed an innovative approach to commissioning through community engagement.

11. The sector has developed a range of approaches that enable people who may have complex needs to live an ordinary life. These approaches often rely heavily on volunteering and/or connecting people to universal resources in their local community. Examples include peer support networks and circles of support.

12. Approaches to volunteering vary considerably among VODG members. For many providers, volunteer input is integral to their approach to service delivery, while others have very little volunteer involvement often due to the complexity of need of the people they support. However, volunteering remains a feature of our member organisations.

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551 Turning Point Community Commissioning Accessed: http://www.turning-point.co.uk/community-commissioning.aspx


553 Circles UK What is a circle of support and accountability Accessed: http://www.circles-uk.org.uk/about-circles/what-is-a-circle-of-support-and-accountability
and VODG members are active in enabling disabled people to volunteer both in national roles and in their local communities. For more information on inclusive volunteering see VODG’s Volunteer Management Toolkit.554

Pressures, opportunities and resource management

13. Pressures which are currently impacting on charitable care and support providers are:
   - Cuts in public sector spending
   - Increasing costs associated primarily with the introduction of the national living wage, pensions auto-enrollment, apprenticeships levy and other pressures
   - Approaches to public sector commissioning
   - Staff recruitment and retention
   - Public perceptions of care services

14. Funding to support disabled and older people has been significantly reduced since 2010. In the five years to 2015/16 local authority funding of adult social care reduced by £4.6 billion (a 31% reduction in net budgets). In 2015/16, 82% of directors of adult social services report that the quality of care is compromised as a result of these savings being made.

15. The Local Government Association and Association of Directors of Adult Social Services estimate a £4.3 billion funding gap in adult social care by the end of the decade.555 In this context providers experience the real tension between delivering high quality of care in a sustainable way at a price that is affordable for commissioners. They are increasingly concerned that this will lead to the closure of services which have become financially unviable. Without adequate funding voluntary organisations may exit the market completely causing further market instability and negatively impacting on the lives of the many people who use their services.

16. The continued squeeze on fees for services is leading to an ever widening gulf between the real costs of delivering care and that which commissioners are prepared, or able, to pay for. For 2016/17 directors of adult social care report that they plan to make further savings of £941m or 7% of the overall budget. They estimate that a quarter of these savings will come from cutting services or reducing personal budgets for those people who receive care and support.556 Insufficient funding is resulting in fragmented social care markets, and councils struggling to manage the market.


17. The 2015 Autumn Statement enabled local authorities to raise council tax by 2% for adult social care in 2016/17. This has meant a slight rise in the overall budget. However the Association of Directors of Adult Social Services (ADASS) calculates that this raises less than two thirds of the overall costs of implementing the national living wage. Meanwhile not-for-profit providers have received no additional funding to offset increased take up in pensions as a result of pension auto-enrollment.

18. Third sector care and support providers are also concerned that public sector procurement is contract or price driven, rather than strategic and focused on best value. This means that much of the value that not-for-profit providers bring to adult social care, in terms of quality, innovation, volunteering and community engagement is not recognized within the commissioning process. Delivering high quality services offers no commercial advantage when decisions to award contracts are based on the lowest possible price.

19. Skills for Care (SfC) estimate that 1.2 million people work in direct care roles in England, with some 60,000 vacancies at any one time and an overall turnover rate of 25.4%. Providers report many reasons for challenges in the recruitment and retention of staff. A key aspect is the increasing complexity of the needs of people who use services. This means that social care work is becoming more skilled and specialised, in an industry that is still relatively low paid.

20. Recruitment and retention issues are compounded by the demographic demands identified earlier. A 2015 report from the Centre for Workforce Intelligence estimates that the workforce will need to increase by 41% over the next 20 years to meet increasing demand from people with disabilities. This increases to 51% for people with a learning disability.

21. There is concern amongst providers about the instability that may result from the decision for Britain to leave the EU. There are an estimated 80,000 EU migrants filing 6% of jobs in the social care in England. A VODG report on the impact of Brexit provides a more detailed discussion of the likely implications of this.

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Voluntary Organisations Disability Group (VODG) — Written evidence (CHA0050)

22. The negative media representations of the care sector are perceived as a further barrier to those seeking employment, particularly with regards to the low status given to it. A report from Bournemouth University\textsuperscript{562} suggests that:

“At a national level, more needs to be done to value those who work in the care sector by highlighting the benefits and rewards of care sector employment and not just the negative aspects of this type of work. Raising the status of the care sector through the provision of career progression pathways, clear qualification requirements, and enhanced pay levels would help to inspire future workers to join the sector”.

23. Opportunities may often appear elusive at a time when the overall adult social care market is shrinking. However, technological advances offer significant possibilities and there are potential opportunities to develop innovative services for people with learning disabilities and mental health needs.

24. Following the scandal of Winterbourne View, the ‘transforming care’\textsuperscript{563} agenda represents a huge opportunity to get services right for people with learning disabilities and mental health needs and the not-for-profit sector has providers who are well-equipped to offer long-term, high quality care and support. This is an area of policy that is failing to be implemented properly with significant lost opportunities for the people requiring transfer from long-stay institutions to community-based support, including their own homes.

Innovation

25. New technologies are enabling provider organisations to improve the efficiency of their back office functions, but more importantly are making a significant difference to the wellbeing and autonomy of people who use services. VODG members support disabled people to access and use a wide range of personalized technology such as telecare, environmental controls, communication aids and prompting devices.

26. However, there is a dilemma around mainstreaming technological developments; innovation requires significant up-front investment, which can generate long-term savings, for instance by reducing a person’s reliance on paid staff. But local authorities rarely commission these technological solutions. VODG has called on local authorities to commission services based on outcomes delivered through the whole life of a contract rather than fixed hourly rates\textsuperscript{564}. This would give providers the confidence to invest in


\textsuperscript{564} VODG (2016) Technology is changing the way we live. Can it also transform the way we deliver adult social care? Accessed www.vodg.org.uk/uploads/pdfs/2016%20VODG%20technology.pdf
technologies that can simultaneously improve quality of life and reduce long-term care costs.

Governance and leadership

27. A key characteristic of the governance arrangements of not-for-profit care and support providers is their need to ensure a strong user voice. This means that many providers have user representatives on their boards; this includes board members with physical disabilities, mental health needs, learning disabilities or social or communication needs. Consequently many third sector care providers have developed an expertise in taking an inclusive approach to board meetings and equipping people from a wide range of backgrounds to contribute to effective decision making at board level in a complex business environment. Therefore we are particularly concerned to ensure that any changes to the governance requirements of charities are compatible with the involvement of people who are both trustees and users of services.

Accountability

28. Third sector care and support providers are regulated and/or inspected by a wide range of public bodies including local authorities, Clinical Commissioning Groups, the Charity Commission, the Care Quality Commission (CQC), Companies House, HMRC, the Health and Safety Executive, Ofsted, the Homes and Communities Agency, CSSIW in Wales and the Care Commission in Scotland. Consequently there is much that could be done to harmonise the requirements of the various oversight bodies.

29. As part of the red tape challenge, CQC has committed to tackling this issue from a quality perspective in England. If successful this would reduce the intrusion and disruption to people who use services that inevitably accompanies an inspection visit. We would welcome further initiatives to harmonise requirements and thereby reduce the administrative burden on charities.

30. In order to demonstrate their approach to sustainability, charities are already required to make a statement on their reserves policy in their annual report. In addition, a number of VODG members have recently become subject to CQC’s market oversight regime and are thereby required to evidence in detail their long-term viability by providing data on a quarterly basis. They report that this is administratively burdensome.

31. We realise that in the wake of the collapse of Kids Company questions must be asked and answered about how this situation arose. However, it is clear that information about the vulnerability of the charity was in the public domain, but was not acted on by funders (i.e. government) or by the Charity Commission itself. We believe that Kids

Company was an exception and that existing systems and structures could have been applied sooner and more effectively in order to prevent or mitigate its collapse. Therefore we recommend that there should be no further additional requirements regarding the management of sustainability and risk placed on third sector care and support providers.

Social investment

32. An ability to access good quality housing is crucial to ensuring that people with care and support needs have suitable places to live and that social care providers can develop person-centred services. The current pressure on the housing market means that there are lengthy waiting lists for suitable social housing and rents for private rented accommodation are often unaffordable to people on housing benefit. Therefore the sector needs capital investment. A recent approach taken by some third sector care providers has been to launch their own bond scheme in order to raise capital to provide suitable housing for the people they support.567 568

33. These schemes have had no difficulty in attracting investment. However, they are relatively modest. We anticipate that providers will continue to exercise a cautious approach to investment while the social care market remains subject to instability, which results from short-term contracts and downward pressure on fees paid by local authorities and other commissioning bodies. Until providers can be assured of the long-term viability of their public sector contracts, their confidence to borrow and to invest in service development will remain severely limited.

The role of government

34. Looking forward we propose that government should:

- Retain a focus on domestic agendas in the context of the decision to leave the EU. VODG’s report on the impact of Brexit569 provides a detailed discussion of the likely implications of this decision.
- Be aware that the social care market could collapse and therefore focus resources on a sustainable deal for providers.
- Facilitate more joined up working between health and social care in order to maximise efficiencies and enable people to experience a seamless service. For more information see VODG’s report on What can the voluntary sector do to encourage greater engagement and collaboration with the health system?570

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35. Finally, we are concerned that the Lobbying Act has made charities more cautious at speaking out on policy implementation issues and done much to inhibit dialogue between charities and government. Charities are often best placed to understand and articulate the interests of people who experience social inequality and this has been a key feature of their contribution to society over centuries. It is also imperative that care providers are free to highlight the current fragility of the sector as this poses a risk to society as a whole, for instance by placing additional pressure on the NHS. Attempts to prevent charities from speaking out or to fracture the relationship between their service delivery and policy work represent a substantial threat to their involvement in the democratic process. Therefore we believe that Lord Hodgson’s review recommendations should be implemented in full.\textsuperscript{571}

2 September 2016

Questions

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?
   - How has this changed?
   There is now widespread involvement with public service delivery which some see as a threat to the sectors dependence, voluntarism and reputation for innovation and challenge.
   - What makes them distinct from other organisations doing similar work?
   Charities are formally registered and subject to Charity Governance rules and regulations via the Charity commission as oppose to other voluntary sector and social enterprise groups which include faith, community and grassroots groups.
   - What role can charities play in community cohesion and civic action?
   From the wealth of literature that demonstrates the merits of small and medium sized charities, the following insights are of particular interest. • Many smaller charities are rooted or embedded in their local areas, which brings with it an intimate knowledge and understanding of those areas’ strengths and needs; allows them to draw upon a willing workforce of local volunteers; and means that they can act as ‘anchors’ within their communities, providing stability and flexibility and being responsive to local needs. • Small and medium-sized charities can also play a key role in building and nurturing social networks, and in creating positive and enabling relationships between people who live and work in a particular community. They can help to boost levels of local social capital by building local capacity, and by developing links both within particular communities and between communities and other networks, including national and local government and their agencies. • Many smaller charities are considered uniquely placed to engage directly with those who are hardest to reach, because their independence, situation within the community and ability to draw upon local volunteers fosters greater levels of trust. Many smaller charities are longstanding and well-known local institutions, with an established history of helping individuals and communities through difficult times. Such organisations are considered experts in working ‘holistically’, or in a ‘person-centred’ way that is responsive to individual and local contexts.

Useful reports:

- Taken for granted? The needs of small voluntary and community sector organisations in a big society era (2013) by Ed Cox and Katie Schmuecker – a study setting out the importance of grant-making in the context of reducing statutory funding and ‘social finance’
- Charity Street: the value of charity to British households (2014) by Alex Glennie – a quantitative analysis of the ‘value’ of charitable voluntary and community organisations to particular households in England
How does the sector benefit from volunteering?
The VCSE sector has a track record of working in a person centred, holistic, long term, relational and locally-rooted way. At its best, the VCSE sector does not just deliver to individuals, it draws upon whole communities: for volunteering and social action which addresses problems like loneliness and stigma, and for the expertise of lived experience in designing more effective, sustainable services and systems.

What challenges do charities face in trying to fulfil their role in civic society?
The Think Tank IIPR North have identified the Key emerging issues concerning civil society as follows:

- The on-going impact of austerity and the demand-pressures this is placing on voluntary and community sector organisations;
- Access to finance, funding and assets, including the role of grants, loans and emerging forms of ‘social finance’;
- Challenges concerning statutory service provision and commissioning and contracting with third sector organisations and the costs of ‘failure demand’;
- The role of individuals and communities in building ‘social capital’ and the soft capabilities which support social transformation;
- Community rights and emerging opportunities around neighbourhood planning, asset transfer and local service delivery;
- The role of civil society in local decision-making and more participative forms of local democracy and social change;
- The diminishing role of voluntary sector infrastructure organisations and its impact on VCSE collaboration and ‘voice’.

Against a backdrop of rising demand and the long-term reduction in grants in favour of contracts, the income that the voluntary sector as a whole receives from government has fallen, and smaller organisations have been hit particularly hard. For example, between 2008/09 and 2012/13, charities with annual incomes of £100,000-£500,000, and of between £500,000 and £1 million, experienced large falls in their income from contracts (of 32 and 37 per cent respectively), while larger charities fared much better (NCVO 2016).

Since 2010, the nature of public service delivery has changed significantly, with a shift towards the use of competitive commissioning models in which all types of provider compete to deliver public services. There is compelling evidence to suggest that large organisations, including some large charities, are increasingly dominating the market for public service provision, to the detriment of small and medium-sized organisations.

Civil Society Support & infrastructure
As funding for civil society organisations in general shifts towards outcome-based commissioning and contracts, those that work ‘behind the scenes’ rather than on the frontline are generally, although not always, more likely to struggle to find either public or private funds to carry on. And where dedicated finance for civil society support (infrastructure support) does exist, changes in public policy have threatened a ‘significant unsettlement’\(^572\), towards a new market-based approach (Macmillan 2013). In addition,
awareness among frontline organisations of what is available is frequently an issue, as is the measurement of the impact and effectiveness of support offered, which remains a “contested area” (Wells and Dayson 2010). Civil society support is inconsistently funded and structured across the North of England, which leads to wide variation in the availability and quality of services offered. What is more, there is considerable unsettlement in the funding available for this kind of ancillary service. Many local support organisations are adapting well to new circumstances. But many others are struggling to do so. More broadly, there is little evidence of a strategic approach to funding civil society support as a key partner to a strong voluntary sector.

- How can these challenges be overcome?

1. Although there are limits to the extent to which any measurement will capture the contributions that they make to society, small and medium-sized charities need to be able to provide better evidence of their value and impacts. While the tools and methods for doing so already exist, most of these charities need more and better support from umbrella organisations in order to use them, as well as greater capacity to introduce methods for monitoring and evaluation. Grant funders who typically support such charities could consider innovative ways of funding this kind of work within, or in addition to, existing grants.

2. Commissioning and procurement teams within local authorities, clinical commissioning groups and other public agencies should be made more accountable for delivering social value. Legislation already provides for this: under the provisions of the Public Services (Social Value) Act 2012, authorities in England and Wales are required to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of their area. However, in practice, implementation of the Act has been hampered by uneven awareness and take-up; inconsistencies in its implementation because of poor understanding; and the lack of a clear means of measuring social value (Cabinet Office 2015). More could be done to strengthen the Act by, for example, requiring authorities to ‘account’ for the social value that they generate, rather than just having to ‘consider’ it.

3. Those organisations that have moved away from, or are moving away from, grant-giving in favour of commissioning or more complex forms of social finance need to review the impact that this has on small and medium-sized charities that might not be able or willing to engage with such forms of funding. These charities might still provider greater social value-for-money than those that are more adept at bidding for funding and providing formal evidence of outcome improvements. Although commissioning based on hard

Reference: IPPR North | Too small to fail: How small and medium-sized charities are adapting to change and challenges

A sustainable and responsive infrastructure
Government, local infrastructure and independent funders should consider the recommendations set out in Change for Good and subsequent work from the Independent Commission on the Future of Local Infrastructure.
NHS commissioners and local authorities should providing funding and guidance for suitable infrastructure to better connect personal budget and personal health budget holders with a range of providers, including small and start-up organisations, and facilitate the development of a more diverse range of services accessible by and co-designed with local communities.

**Pressures and opportunities**

2. What are the main pressures faced by charities currently, and what impact have these had?

The North East Third Sector Trends Study (2015) identified that Third Sector Organisations (TSOs) located in the poorest areas were more than four times as likely to have lost significant levels income in the last two years (30%) when compared with the richest areas (7%). Medium sized TSOs operating in poorer areas are much more likely to have had falling income (40% in the poorest areas compared with just 6% in the richest). 42% of Organisations in the poorest areas said they were heavily dependent on public sector funding and this is where the major loss of income had been experienced.

The VCSE in the NE is heavily dependent on public sector funding particularly in our most deprived communities and in this environment of funding cuts many local grass roots organisations are finding their funding cut, we are also starting to lose vital infrastructure support that those organisations rely on for support. We are seeing the closure of CVS/LDA organisations and volunteer centres at a time when we should be investing in this support to ensure our local asset base of community support can survive and thrive and we can build ‘civil society’ to plug the gap reduced state funding is creating and promote the prevention and social action agenda.

An ongoing shift in public funding models, away from grant-funding and towards contracts for service delivery has negatively impacted on the funding environment for charities and community organisations that draw directly upon money from the state. The VCSE sector have been challenged to scale up and to ‘professionalise’ in order to be a provider within the health and care market place and many larger organisations are now delivering large scale service contracts for some of the most vulnerable people. However, we have created an environment whereby it is increasingly hard for smaller grass roots ‘place based’ and/or peer support groups’ to secure funding to provide that essential social value and asset based approach to preventing ill health and promoting wellbeing.

In order to grow the capacity of civil society and see reductions in the cost of state provision we need to invest in its infrastructure not withdraw support.

- What opportunities do charities have in the current environment?

The voluntary sector can help to transform public services – not just by delivering services but also by shaping service design, and supporting user and volunteer involvement in services

- Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?
VONNE (Voluntary Organisations Network North East) — Written evidence (CHA0123)

VONNE is the regional infrastructure body for the NE and undertakes an annual survey of member organisations. There are 4,509 registered charities in the NE and at least the same again in informal small scale voluntary and community groups. The NE has a higher than average percentage of smaller charities and voluntary groups.

**VONNE State of the Sector statistics – June 2016**

Headline figures from VONNE’s survey into the state of the North East third sector, carried out in May and June 2016.

**Headline figures**

- 85% have experienced an increase in demand for their service *(71% 2 years ago)*
- 61% have increased the number of services provided *(35% 2 years ago)*
- 72% have had an increase in numbers of beneficiaries *(42% 2 years ago)*
- 43% only have reserves to last up to 3 months *(41% 2 years ago)*
- 46% have their grant income decrease but 44% have seen their earned income increase.
- A third of those who have experienced a reduction of income did not expect that loss.

**Looking to the coming 12 months:**

- 45% will be or are considering recruiting more staff.
- 29% will be or are considering reducing staff *(52% 2 years ago)*
- 53% anticipate an increase in volunteers.
- 68% of organisations are looking to provide more services, whilst 33% are considering closing a service.
- 45% are planning on increasing the number/type of beneficiaries they support.
- 53% plan to or are likely to use reserves in the coming financial year
- 14% may close in the next 12 months *(21%)*

There continues to be a heavy reliance on public sector funds, with 76% of respondents sourcing some, or all, of their income from public sector grants. Public sector contracts provide 49% of the funding mix for groups.

**Innovation**

3. How do charities seek to innovate, particularly in the digital arena?
- What more could be done to promote innovation, and by whom?
- What barriers are there to being innovative?

Resources in terms of time and money to innovate are scarce particularly in the current climate of shrinking funding and increasing reliance on very prescriptive contracts as oppose to flexible grants and core funding is also very scarce and reducing from the public sector.

**Governance and leadership**

4. What skills are required to lead and manage a charity?

- Leadership & governance skills
- Raising income increasingly via tendering and public sector contracts
• Developing partnerships and collaborations
• Demonstrating impact
• Business planning, financial acumen, strategy development
• Intelligence about new initiatives and best practice
• Intelligence about the policy & competitive environment

- How can these skills be gained?
- What support exists to develop these skills within the charitable sector?

Civil society support & infrastructure organisations can help charities and other civil society organisations to gain these skills but often lack the resources to deliver programmes locally. Civil society support’ organisations including Traditional ‘infrastructure’ organisations, such as Councils for Voluntary Service, regional infrastructure bodies and national umbrella groups such as NCVO, NAVCA and Acevo and ‘Anchor’ organisations, which, beyond making substantial contributions to their communities and neighbourhoods, also nurture wider civil society networks by providing support to new and existing community groups within their locality (Thake 2009)

Nationally organisations such as CASS and NCVO can provide training but often the training is London based which is prohibitive resource wise for organisations in the regions such as the NE.

Lack of resources for high-level training is an issue.

Cabinet office put resource into planning a Skills Exchange programme to promote skills sharing between business and charitable sector but then government resource was withdrawn and this has now become a voluntary skills ambassador programme with little teeth or resource to implement meaningfully. For more information on the ambassador role click here.

Nationally cabinet office have been working with the regions on Employer Supported Volunteering (ESV). In the North east we collaborated with Cabinet office and Universities of Hull & Sheffield to run a Workshop in Tyne and Wear. Here is the link to slides from the speakers and below is a summary of emerging findings.

A number of ‘gaps’ were identified as barriers to increasing ESV. For example a lack of access to businesses who could offer the right skills to the VCSE sector, as well as businesses not having the capacity to allow their staff to get more involved in their communities. Similarly, the workshops identified that organisations often found it difficult to articulate what support they would need from businesses; with a lack of common language being highlighted as a barrier for the two sectors engaging with each other.

The workshop highlighted that there is a need for a central way for VCSE organisations and businesses to establish effective links as well as more opportunities for cross sector networking and sharing best practice. Brokerage infrastructure was seen as a vital component to help establish long term relationships between the sectors. To support brokerage there is a need to articulate a stronger case as to why organisations would pay for brokerage as well as strategic involvement from funders. The Universities of Sheffield and Hull will be compiling the research from each workshop into a report that will be published later in the year.

Organisations such as Pilotlight support skills sharing between business and charitable sector nationally.
5. What role should trustees play in the performance and effectiveness of a charity?
- How can trustees be best equipped, enabled and supported to fulfil their responsibilities?
- What, if any, changes might this mean for current arrangements?

Good Governance guides produced by NCVO and Quality Good Governance Training delivering by organisations such as NCVO & CASS Business School should be mandatory for all trustees and available at no cost or reduced cost for smaller charities.

Charity Commission Guidance and Training is also available via their website and via Civil Society Support organisation’s but any training should be of recognised quality standard and resourced effectively and refresher training should also be mandatory.

Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?
See above response to point 5
- What, if any, changes might this mean for current arrangements?

Strengthening of requirement for trustees to undertake specific training and for this to be properly resourced and available.
- How should charities assess their long term viability and/or sustainability?

Support for business planning and strategic planning is available via a range of organisations but can be prohibitive in cost. Organisations such as Big Society capital are providing access to support for investment readiness but with a focus on social investment which may not be appropriate for charities. See response to point 5 on skills above.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

**VONNE State of the Sector statistics – June 2016**

Headline figures from VONNE’s survey into the state of the North East third sector, carried out in May and June 2016:

- 85% have experienced an increase in demand for their service
- 43% only have reserves to last up to 3 months
- 46% have their grant income decrease but 44% have seen their earned income increase.
- A third of those who have experienced a reduction of income did not expect that loss.

**Looking to the coming 12 months:**

- 53% plan to or are likely to use reserves in the coming financial year
- 14% may close in the next 12 months (21%)

There continues to be a heavy reliance on public sector funds, with 76% of respondents sourcing some, or all, of their income from public sector grants. Public sector contracts only provide 49% of the funding mix for groups.

- How can these challenges be overcome?

Government should consider providing greater support to build the capacity of VCSE organisations to compete for and public sector contracts and develop other income generating sources and business models.
-- How can charities effectively deliver services and be assured that their work achieves successful outcomes?
Charities have largely been delivering services effectively for years and their person centred and holistic approach generally leads to an outcomes based approach. The problem is that it is often difficult to quantify and measure the impact and outcomes in a way that satisfies the commissioners particularly in the new public sector contracting environment. It takes additional resource and time to put in place effective evaluation measures to demonstrate outcomes and impact and outcome often take time to achieve which goes against the short term based contracting world. Greater support for charities in understanding and applying outcome based measures for their work and funding built into contracts to provide for the measurement of outcomes is essential. Having a centralised resource with an ‘approved’ set of outcomes based tools for measurement which commissioners and charities can draw on would be helpful as charities are often challenged with using a variety of different outcomes measures for different funders.
Outcomes measures are more difficult for organisations with a focus on infrastructure or on campaigning/lobbying and this needs to be recognised as they are not direct service delivery organisations working with individuals.

The report recommendations include:
• funding for voluntary organisations should be transparent, long term and have a greater emphasis on social value
• Local strategic plans should be based on thorough engagement with local communities and VCSE organisations
• statutory guidance for Commissioners in health and social care should be revised to emphasise the need for them to work with charities and social enterprises in order to meet duties under the Health and Social Care Acts.

- What are the benefits and challenges of funding for charities being derived from commercial contracts?
Since 2010, the nature of public service delivery has changed significantly, with a shift towards the use of competitive commissioning models in which all types of provider compete to deliver public services. There is compelling evidence to suggest that large organisations, including some large charities, are increasingly dominating the market for public service provision, to the detriment of small and medium-sized organisations. The VCSE sector have been challenged to scale up and to ‘professionalise’ in order to be a provider and many larger organisations are now delivering large scale service contracts for some of the most vulnerable people. However, we have created an environment whereby it is increasingly hard for smaller grass roots ‘place based’ and/or peer support charities and groups’ to secure funding and to compete in a competitive tendering environment. Traditional contract-based commissioning can work for some large-scale VCSE provision but these do not appear to be the best way to support community development or to build social action, and we need a more considered range of funding approaches to be used in every area. For instance, personal budgets and personal health budgets can allow
individuals and small groups to take real responsibility for shaping their care, with consistently better outcomes for people with long term conditions and their family carers. Neither ad hoc grant giving, nor contract-based procurement, appear to create a diverse, creative and sustainable VCSE sector. Genuine commissioning and market shaping represent progress. But the real goal must be to end the inside/ outside model where statutory bodies are ‘the system’ and VCSE organisations and the communities they represent remain ‘outside’, competing for scarce and fiercely guarded resources.

**Social investment**

8. What is the potential of social investment and social impact bonds?

Social investment has been recently seen as the magic solution to the decline in public sector funding for charities and social enterprise nationally. However, for a great number of local charities social investment is not something that will ever be appropriate as ultimately it is loan finance and particularly in the North East, charities are asset poor, do not have reasonable reserves and trustees are very wary of exploring loan finance.

The North East is the English region with the lowest number amount of registered Charities (4,509) by number and by population and the region with the lowest number Of organisations by income and assets (NCVO 2016) and our recent Surviving or Thriving survey 2016 identified that of over 100 respondents 43% of orgs only have reserves to last up to 3 months.

A social impact bond SIB is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a commissioner. The added value to public sector commissioners is that it substantially de-risks innovation and the re-design of services with an explicit focus on social and financial outcomes that, in themselves provide a rigorous proof of concept. In the North East Newcastle Gateshead CCG has the first SIB in health in the UK, Ways to Wellness, which is delivering social prescribing at scale through 4 Voluntary sector main providers for up to 8,500 people with long term conditions in West Newcastle with the aim of improving quality of life and reducing demand for expensive hospital services.

This model was developed through the charitable sector collaborating with public sector stakeholders but required significant amounts of start-up funding via Big Lottery and Cabinet Office. This is a potential route to replacing public sector funding of public services and has enabled the scaling up of social prescribing interventions often previously delivered by charities and funded via piece meal grants on a small scale to being a part of the mainstream delivery of health & wellbeing services.


- What are barriers to fulfilling their potential?

However, for SIB’s to work there needs to be significant amount of development time, resource and expertise along with willingness on the part of public sector commissioners which is not always forthcoming. The recent launch of the Life Chances Fund by Cabinet Office and the Go To lab are a step in the right direction but the restrictive procurement rules and NHS Standard Contracts in addition to inflexible procurement teams at local level work against the development of SIB’s.
The role of the Government

9. What should the role of Government be with the sector?
- What should be the role of local Government?
  1. The government should recognise and respect the independence of Charities and not seek to over regulate charities.
  2. The recent Lobbying Act is seen by the charity sector as a step too far in that it seeks to restrict the traditional role of many charities in providing an advocacy, voice and campaigning function for the communities they represent.
  3. The government, led by cabinet office, should demonstrate its support for the Compact principles as a framework for effective collaboration between VCSE and statutory sectors.
  4. The government should monitor and take steps to ensure the Social Value Act is properly applied and ensure Social value is better embedded in the commissioning approaches of local authorities and NHS commissioners (including Cabinet Office working closely with NHSE to ensure training and support are available to commissioners and procurement teams and with NHS SDU to explore ways to identify and incentivise social value creation and fill gaps in the social value evidence base).

- What should be the role of the Charity Commission?
- Have these relationships changed? If so, how?

There are concerns that government has been seeking to restrict charities’ right to initiate legal proceedings – over the past couple of years we have seen judicial review slowly but relentlessly curtailed by a number of changes.

In recent previous revisions of Charity Commission Trustee guidance, the commission has tended to re-set the tone to a much more restrictive one, often strengthening the emphasis on the risks of trustees doing something and on their liabilities should they fail to meet their legal duties (see for example the updated CC3 guidance on the ‘Essential Trustee’).

These are at no point balanced out by the commission’s acknowledgement that legal proceedings can be a necessary step, and the only way in which trustees can act in the interests of their beneficiaries. Not to mention the use of judicial review as a vital way for individuals and groups to hold powerful public authorities to account for important decisions such as which public services they provide, how they provide them and who can access them – by organisations such as AGE UK, Justice, Child Poverty Action Group and many others.

- How should Government (national or local) focus its resource to deliver its civil society agenda?
The Coalition government prioritised diversity of scale in its general procurement agenda by introducing a goal for 25 per cent of central government spending to go to small and medium-sized enterprises by 2015. The government has announced that this target was met

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in 2014/15, and the 2015 Conservative party manifesto included a pledge to increase the percentage of spending going to small and medium-sized businesses to one-third. It is significant that the current government has made a commitment to work with smaller private companies to overcome the particular obstacles that they face, but not with charities. We recommend, therefore, that the government makes a similar pledge for small and medium-sized charities that may be offering greater social value through the goods and services they provide. Local authorities could also benefit from following the example set by central government, by setting their own targets for contracting with smaller organisations with charitable/social objectives.

To improve their quality of life and reduce the ‘cost’ to the system of supporting the people who place most demand on the system we need to invest in communities and activities that support behavioural change, resilience, self-care and social inclusion and recognise there is a need to shift investment into building the local asset base to support this. This requires investment at scale in locally routed and user led civil society organisations in order to take an asset based approach to creating sustainable and cohesive communities. Combined Authorities should use greater devolved powers and resources to develop, at scale, locally integrated programmes to support people into employment that recognises the value of local VCSE organisations in delivering a person centred, holistic approach to supporting those furthest from the labour market towards employment. Resources should be ring fenced within a Regional ‘Asset Development’ Fund to protect our existing community asset bases and organizations and support their sustainability.

There is also an opportunity for the Combined Authorities to introduce a joint and consistent approach to social value within commissioning and procurement to ensure a level playing field for organisations with a social mission and to create more value from public spending.

Government at central and local level should consider the recommendations set out in Change for Good and subsequent work from the Independent Commission on the Future of Local Infrastructure and seek to target resources to protect local infrastructure support from the charitable sector.

- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?

- What are the opportunities and challenges associated with local devolution?

Potential challenges for the sector:

1. Particularly given the high % of smaller charities in the north east is seeking to have voice and influence at sub regional/combined authority level. Potentially positive strong local relationships with local authorities could be diluted through the establishment of combined authorities.

2. Devolution potentially presents some challenges for some national and thematic /client group based charities as there is a potential for devolved budgets to focus on more local place based agenda’s and communities.
3. Charities will increasingly have to deal with more local less uniform commissioning processes which brings with it both advantages and disadvantages to the sector.

4. The potential loss of ESIF funding through Brexit will impact at Devolved authority and LEP level on the sector and therefore securing resource via the new Investment Funds allocated to devolved authorities and any replacement for ESIF funding allocated via devolved budgets will be paramount to charities sustainability.

The charity sector has a role to play within devolution as follows:

**As service providers**
1. Deliver place-based services which communities can shape.
2. Re-energise VCSE sector involvement in delivering holistic employment support with an emphasis on the person and on building confidence, wellbeing and opportunities.
3. Share and scale up good practice which makes a difference - work with public health partners to demonstrate impact.

**As local partners**
1. Charities and their local routed approach can be a mechanism for devolved authorities to engage at grassroots level with communities
2. Contribute to local intelligence about key economic and social issues, and how this intelligence can be 'translated' into local action.
3. Co-design place-based services, and support communities to work with policy makers and funders to shape change.
4. Support the development of intelligent local investment strategies which build connections (networks) and community capacity (knowledge, opportunities, motivation).
5. When involved in combined authority governance ensure that reducing economic and health inequalities and promoting social inclusion & health and wellbeing are central objectives in economic development strategies.
6. Provide expertise on working and make links with specific communities and equalities groups - make sure no-one gets left behind.

**As lobbyists/campaigners**
1. Use the Social Value Act to lobby for maximum social value from public sector spend, including funding of local VCSE organisations and investing in local services.
2. Advocate on behalf of communities and equalities groups to make sure no-one gets left behind as economy begins to grow.

*5 September 2016*
**Wales Council for Voluntary Action — Written evidence (CHA0097)**

**Summary sheet**

1. Wales Council for Voluntary Action (WCVA) is a registered charity and umbrella body working to support, develop and represent Wales’ third sector at UK and national level. We have over 3,350 organisations in direct membership, and are in touch with many more organisations through a wide range of national and local networks, including County Voluntary Councils (CVCs). WCVA’s mission is to provide excellent support, leadership and an influential voice for the third sector and volunteering in Wales. We work in partnership with our sister Councils – NCVO, SCVO and NICVA.

2. We welcome the opportunity to respond to the Select Committee on Charities Call for Evidence. As WCVA has interests in all the fields the Committee has asked about, we have produced a detailed response and as requested, provide this summary.

3. The purpose of charities – charities champion social causes and influence change. However, the future is uncertain for many.

4. Pressures and opportunities – the third sector continues to feel pressure from increased demand and funding cuts, with concern that Brexit will deepen this problem further.

5. Innovation – a range of free and low-cost online tools are available that allow the sector to innovate. However, almost a quarter of Welsh adults are digitally excluded, meaning lots of people are unable to participate meaningfully as services in Wales go more and more online.

6. Governance and leadership – a wide range of trustee skills are needed to lead a charity. The Governing Body should identify skills needs and encourage trustees to take training opportunities. WCVA and the CVCs provide a range of training and support options.

7. Accountability – Charities must provide evidence to demonstrate they are operating fairly and transparently. They should have robust risk management systems in place.

8. Resource management – Charities have shown great resilience amid the current financial climate, but constant cost-cutting is not sustainable in the long-term.

9. Social investment – Social investment has an important role to play in the funding mix for charities, but it is not a holy grail to solve all difficulties in charitable funding.

10. The role of the government – Welsh government and local government needs to continue to engage with the sector to gain the best understanding of the needs of Wales’ people and communities.
11. Lessons from other sectors and countries – Much can be learned from UK-wide organisations working across devolved administrations, especially funders who support initiatives in different parts of the UK. Increased collaboration is vital.

Wales Council for Voluntary Action full response

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

1.1 The charitable sector is enormously diverse. WCVA’s All Wales Database of Voluntary Organisations shows 8,963 registered charities in Wales. These range from the local to the international, working on a huge range of issues.

Charities play an essential role in supporting people’s wellbeing over the short and longer term. They do this through their direct activities and services provided.

They also play an important role in our democracy. As independent, value-based organisations, charities advocate and champion social causes, influence change across government, business and civil society, and hold government and others to account.

As with other parts of civil society, charitable organisations have a role as catalysts to develop new ideas and visions, and to support dialogue across society.

How has this changed?

1.2 It is less the purpose and role that charities play in civil society that has changed, but more the context in which they work, such as a more uncertain future. An example of this is the uncertainty around future relationships with the EU, including for organisations that receive European Union funding and work closely with European networks.

A ‘futures exercise’ recently undertaken by WCVA and Community Voluntary Councils in Wales (report forthcoming) identified future trends relevant to the sector and what may be the key drivers for change impacting on the third sector in Wales. It is clear that technological developments will have a significant impact on the way that charities work, with the potential to share and increase knowledge and reach new audiences. Other trends discussed include shifting individual and collective
values, declining trust in public institutions – including charities – and the shape of the economy.

**What makes them distinct from other organisations doing similar work?**

1.3 The futures exercise highlighted the increasingly blurred boundaries between the third sector, public sector and private sector. However, there are still important distinctions. Government has a role that charities clearly do not. As Andy Benson wrote (*Voluntary action, the state and the market*, Soundings, 60 (2015)), as opposed to government, voluntary organisations are ‘neither universal nor democratically accountable, and seek to pursue a particular rather than universal interest.’ Unlike the private sector, charities are not-for-profit organisations.

**What role can charities play in community cohesion and civic action?**

1.4 Charities have a significant role to play in community cohesion and civic action. Charities are led by volunteers and, for many, volunteering is fundamental to the way they deliver against their charitable objectives. That might be by volunteers running services, such as St John’s Ambulance, or taking part in activities, such as the Women’s Institute, through to campaigning organisations where supporters play a key role in influencing change, such as Oxfam.

Many charities have been at the forefront of promoting community cohesion. In Wales, organisations like Welsh Refugee Council and Displaced People in Action actively promote community cohesion with migrant groups. There are also networks at national and local level which provide a voice for BME third sector groups and which provide an important link between public bodies and third sector groups to discuss and take action on issues around community cohesion.

The work that many charities do also bring diverse groups of people together to undertake activities of common interest such as cultural activities, themselves acting as an informal space to support community cohesion.

**How does the sector benefit from volunteering?**

1.5 Volunteers add capacity, credibility, skills, energy, local knowledge, life experience, diversity and a human touch to what charities can offer. In addition they give the time and energy that allows much charitable activity to take place. To maximise the impact of volunteers, dedicated volunteer policies and processes with clear coordination and management are necessary. Volunteer trustees are responsible for charity governance, giving strategic direction to the sector.
How has the status of volunteers changed?

1.6 Volunteers have no legal status as such, but are increasingly involved in the delivery of public services, including contracted services. In some cases, there has been a shift from volunteers being optional to being central to a charity’s mission. Also, volunteers’ ‘status’ has also changed as a result of changing expectations of new generations of volunteers. More expect professional standards of management, short term options and clearly articulated ‘gains’ from their commitment, such as training opportunities, access to events, feedback on their impact or experience to further a career.

What challenges do charities face in trying to fulfil their role in civic society?

1.7 WCVA has recently undertaken a strategic review which highlighted a number of challenges facing the third sector in Wales, including charities.

A key challenge is the changing funding landscape. Public budgets are shrinking and look set to decrease further, making public funding much more competitive. At the same time, increasing demand for services is impacting on many charities as it is the public sector. As well as the level of resources, charities in Wales are facing a shift away from grant funding by public bodies towards contracted services, competitively tendered. This can mean shorter term funding as well as the loss of core funding. WCVA’s Third sector statistical resource 2016 showed a decrease in the proportion of the third sector’s income from public giving and there is now huge uncertainty for organisations which had been in receipt of European funding.

The impact of changes in funding does not appear to be impacting evenly across charities in Wales. A recent Lloyds Bank Foundation report for England and Wales found that since 2008, small and medium charities have lost 44 per cent of the income they receive from local and central government. Smaller charities experienced higher income volatility than larger ones between 08/09–13/14, with Welsh charities losing 11 per cent of their overall income.

However, funding is far from the only challenge, and many more of these are explored in our answer to question two.

WCVA has joined its sister organisations in England and Scotland in raising concerns about restrictions in charities’ and other third sector organisations’ ability to speak out on key issues of concern to their beneficiaries in light of recent UK Government legislation, the anti-lobbying clause in grant agreements for UK government funding.
and restrictive guidance on charities’ role in the run up to the EU referendum. The Welsh Government has not introduced similar restrictions to its grant agreements.

WCVA’s recent futures exercise suggested that there are a number of current future trends that could be challenging for the sector – or indeed provide opportunities. As well as levels of future funding, workshop sessions identified citizen engagement as hugely important to the sector, but also that there is currently great uncertainty as to future levels of citizen engagement. Citizen engagement is central to the work of the third sector and increasing disengagement would lead to significant challenges.

How can these challenges be overcome?

1.8 Our strategic review looked at some of the opportunities and challenges ahead for the third sector in Wales. Based on this, we have identified a new set of strategic priorities and new ways of working that we will adopt to deliver these. We believe focussing on these will help us to work with the sector to overcome some key challenges.

We believe it’s important to have a sector that is inclusive and to counteract trends that might lead to an unequal and imbalanced sector. This would include supporting young, as well as older, people to participate, ensuring groups are vibrant in both rural and urban areas and that smaller and medium sized groups are able to attract resources alongside the larger charities. To do this, we need a good understanding of trends within the charitable and third sector so we can identify which groups are participating and which areas of the sector are strong or weak.

We believe the sector needs to demonstrate it is making the biggest difference, using all available resources to the best of its ability. This will demand showing impact, using evidence, making the most of digital technology and being innovative. To do this well, many groups will need to shift their skill sets.

Being trusted and valued is another key challenge. Supporting governance standards within the sector as well as being able to demonstrate impact and have strong communications will be important.

We want to see a strong and resilient sector. This will mean diversifying funding sources and increasing access to alternative sources of funding. WCVA’s Wellbeing Bond is an example of how this can be done. Meeting appropriate quality standards should also support resilience.
Finally, working with other parts of society will be essential. Charities will not overcome current and future challenges, or be able to grasp opportunities, on their own. It will be crucial for government to support an environment that enables charities to flourish and to play their full role in society. Similarly, charities can benefit from good relationships with the private sector, whether that be about transferring skills, as a source of funding or a partner in achieving shared goals.

**Pressures and opportunities**

2. **What are the main pressures faced by charities currently, and what impact have these had?**

2.1 Funding cuts continue to be one of the main pressures facing charities. WCVA’s 2015 *State of the Sector Survey* showed that 28 per cent of Welsh organisations that responded felt their financial situation had worsened over the previous three months, and 44 per cent predicted it would worsen over the next twelve months.

Figures within WCVA’s *Third sector statistical resource* show the cuts the sector in Wales is being asked to bear - in 2013, it received £334 million from Welsh Government. In 2014, this had fallen to £306 million, and by 2016 it had dropped to £290 million. The further impact of Brexit on third sector funding in Wales is expected to be considerable.

These cuts have led to redundancies within the third sector, with 2015’s *State of the Sector* showing 1,243 jobs lost since 2009, with 305 more at risk at that time. It has also helped propel the push to collaborative working, which allows organisations to share resources (and risk), and work more efficiently. Collaborative working is now embedded within the Wellbeing of Future Generations (Wales) Act.

Other pressures the third sector in Wales is facing include:

- Falling public trust in charities. The Charity Commission cites that in England and Wales, public trust is at its lowest levels since monitoring began in 2005. Public giving in Wales made up 27 per cent of sector income in 2014. This has now dropped to 21 per cent according to the 2016 *Third sector statistic resource*.
- Adapting to new legislation. The Social Services and Wellbeing (Wales) Act and the Wellbeing of Future Generations (Wales) Act certainly offer opportunities to the sector, but readying themselves for these Acts can be a challenge for some sector organisations.
Digital technology. As pointed out in 2015’s The New Reality report, the third sector UK-wide suffers a ‘skills gap’ when it comes to digital, for instance in the areas of process management and innovation.

Brexit and the charity sector. The vote to leave the EU has already provoked profound change and created upheavals in our markets and our politics. The charity sector will not be insulated from these shocks, but it will take some time to grasp the full implications for individual organisations and for the sector as a whole.

Alongside the fall in state expenditure, the recent fundraising scandals and resultant regulation is expected to lead to a reduction in fundraising income in the short to medium-term for larger charities that have traditionally relied on donor income.

What opportunities do charities have in the current environment?

2.2 The changing environment we have outlined above demands a response from charities themselves, but as the sector is so diverse each will be affected differently. But we believe that there is both an opportunity and a necessity for charities to rethink how they use resources available to them, the relationships and business models needed to maximise them and how to deliver greatest impact.

There are already some new ways of thinking about this:

- **Building on the assets of beneficiaries and communities**
  An asset-based model sees charities playing a new or enhanced role in terms of enabling communities and individuals to discover and build on their own resources. Enabling people to achieve change themselves and supporting them to do so helps build a more sustainable future for communities as they become more resilient to future challenges.

- **Brokering and harnessing new resources**
  With boundaries between the state, private sector and charities more blurred than ever, there is a growing expectation, and desire, for businesses to be more active in the communities where they work. For charities looking to maximise resources offered by private sector partners, there are new approaches that go beyond traditional CSR programmes, such as employee skilled volunteering that directly delivers support, such as that provided by Law Works and PilotLight.

- **Social enterprise business models**
  Many charities have assets and expertise that could be used to generate income and many are already exploring this approach. Social Enterprise UK’s latest State of Social
Enterprise Report states there are now 70,000 social enterprises in the UK, with 49 per cent less than five years old. Half of these organisations made a profit last year, demonstrating sustainable business models. 31 per cent of these are based in the 20 per cent most deprived communities.

- **Making the most of the devolution agenda**

  To make the most of the devolution agenda, charities need to think and act much more collaboratively. With fewer funds, but potentially more convening power, at a more local level there is both an opportunity, and a necessity, for different organisations to work together to find solutions. Charities, local businesses, different parts of the local public sector and the communities in which they operate all have resources and assets that can be pooled to tackle intransigent social problems. This requires genuine collaboration, with everyone prepared to relinquish some power to work towards a common goal.

- **Changing relationships with supporters**

  Donations generated through fundraising and the support of volunteers is crucial for many charities. In the context of declining public trust and changing attitudes, charities need to think about how they find, engage with and develop ongoing relationships with their supporters. Switching from transactional fundraising to a more relationship-based fundraising, helps build longer-term relations with potential and existing donors to ensure their support for longer.

Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

2.3 Sector organisations delivering services for older people in Wales are under pressure due to the aging population of the country. Wales Audit Office state there is a projected demand of 65 per cent in the number of older people requiring residential care by 2030, and a 26 per cent rise in those requiring a community based service by that date. Public Services 2025 suggest that if costs for social care in Wales rise in line with England, the real-terms cost of services for older people in Wales could double from the £510 million figure of 2010/11 to over £1 billion by 2030.

**Innovation**

3. How do charities seek to innovate, particularly in the digital arena?
3.1 One way WCVA seeks to innovate in the digital arena is by making the most of free and low-cost online tools, such as Powtoon and Canva, which can be used to create dynamic, interesting, fun content for our online channels. We aim to share best practice in this area. WCVA also provides training to other charities on how to build an engaged online audience, which covers a range of online tools that can be used for free.

WCVA’s ICT working group is currently exploring the benefits and limitations of using open-source software in place of renewing expensive software licenses. Open-source programmes are often developed by communities in a collaborative way and usually not-for-profit.

Charitable organisations are becoming increasingly proficient in the use of digital media for brand awareness, campaigning and advocacy and for the volunteer recruitment and management process.

What more could be done to promote innovation, and by whom?

3.2 Successful innovation by third sector organisations should be celebrated by the media. It is important that examples of best practice and innovation are highlighted by organisations that have the relevant influence and networks.

In terms of digital innovation, a digital inclusion charter has been set up that enables third sector organisations to gain accreditation for their commitment to digital innovation and embedding digital inclusion principles into their day to day activities. The charter also encourages organisations to share examples of digital innovation and best practice through their involvement in regional ‘get online’ groups.

What barriers are there to being innovative?

3.3 In Wales 21-24 per cent of adults are digitally excluded and not online. This impacts the charitable sector as these communities and individuals are often facing other forms of exclusion, and are more likely to come from the most disadvantaged groups in society such as BAME communities, long term unemployed, the elderly, long term unemployed and disabled.

The impact of digital exclusion is often felt on smaller grassroots charitable organisations, as these will often be comprised of volunteers that come from digitally excluded groups. This digital divide could be potentially exacerbated as more charitable funding processes go online by default.
The cost of equipment will also always be a barrier in the voluntary sector. Despite the availability of free tools and reasonably priced technology, a sustainable source of funding for computer equipment is essential.

**Governance and leadership**

4. **What skills are required to lead and manage a charity?**

4.1 The work of a trustee is central to the successful running of a voluntary sector organisation. An effective governing body (GB) will have a positive impact on the organisation, its staff, volunteers and service users.

Trustees need a range of skills, knowledge and qualities to do their job properly. These include:

- Legal (charity, employment etc)
- Financial
- Business (planning, strategy, marketing, trading)
- Fundraising

**How can these skills be gained?**

4.2 Identifying skills needs and encouraging trustees to take up a range of training and development opportunities will improve the capacity of the existing members, and also aid in improving recruitment and retention rates to the GB.

Some voluntary sector organisations will have a role description and person specification to aid in recruiting the right person to the GB, and will ensure that induction and regular feedback takes place as part of the development process. However, this is often not the case as it is not always recognised that trustees need support, training and opportunities to develop in the same way as staff and volunteers do.

The GB needs to:

- Identify need by undertaking a self assessment of their work and life situation (a training needs analysis, (TNA)) to establish where they are (A) now and (B), want to be both collectively and as individuals. Such an exercise can be carried out to establish the trustees’ learning needs to get from A to B, and some organisations will commission an external consultant to undertake this work. Others will find that it
may be sufficient to carry out an internal skills audit of their GB to identify what gaps there may be, which will then help to identify what training needs the trustees have.

- Develop an action plan - taking into consideration the timescale, resources and barriers which may exist (and how to overcome them!).
- Monitor and evaluate progress.

In a recent consultation with stakeholders in Wales, Big Lottery Fund found that third sector organisations were concerned about the future. Increased demand for services coupled with funding becoming increasingly difficult to come by has put added pressure on the sector meaning it is harder for organisations to operate effectively and plan for the future.

The consultation found in particular that third sector organisations wanted support in specialist areas such as 'business planning strategy and finance'. With this in mind Big Lottery are now looking for applications of between £10,000 and £500,000 for projects that take a new approach, specifically in piloting innovative ways of bringing in new skills and expertise through mentoring and trustee recruitment.

What support exists to develop these skills within the charitable sector?

4.3 WCVA offers a whole range of information sheets and guidance for Trustees. These include a Good Governance guide, a governance health check and a whole host of web based guidance.

As part of WCVA training offer we deliver a range of training sessions and seminars, these include traditional classroom based sessions, webinars and online courses. These sessions cover topics such as data protection, fundraising, charity financial management and legal structures.

County Voluntary Councils also offer a range of support in this area, offering training on such topics as Being a trustee; How to organise and run your AGM and Governing your organisation to name a few.

Local trustee networks provide an opportunity for trustees to access expert advice for free which will help them in their day to day duties.

5. What role should trustees play in the performance and effectiveness of a charity?
5.1 Trustees’ roles vary across organisations and are often dependent on the dynamics of the organisation and trustees’ relationship with the senior management team. This then has an impact on how they are able to play a role in the performance and effectiveness of a charity. Some comparisons could be made against non charitable organisations and board structures. A point for consideration is for senior management to be able to be trustees and have an increased and shared accountability.

Typically, reports to trustees, and their involvement, are often at formal board meetings, committees or panels and therefore perhaps they are not fully aware of operational issues which may have a long term impact for organisations. Closer staff interaction and increased involvement at an operational level as well as a strategic level could help to monitor performance and the effectiveness.

**How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**

5.2 Trustees need to be fully aware of their roles and responsibilities and this can be achieved through identifying the skills required, along with role descriptions and inductions. It is essential that trustees attend all meetings and engage with staff at all levels. It is especially important that they have a good relationship with senior management teams and are involved fully involved in decision making. External support could be achieved through trustees’ networks and regular, or potentially mandatory, training on roles and responsibilities.

**What, if any, changes might this mean for current arrangements?**

5.3 There is the potential for some significant changes in the structure of charities if it is concluded that senior management and trustees’ roles should intermingle. Compulsory training and membership of networks may also mean that current processes as a requirement of the role would also mean changes for current arrangements.

Another potential consideration is trustees’ remuneration. The amount of time a trustee commits to an organisation will differ due to a number of factors such as senior management team, trustees themselves and the organisation. It could be argued that remunerating trustees could attract more trustees (quite often organisations struggle to recruit) and it may mean they are able to dedicate more time to their roles.
Accountability

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

6.1 By providing evidence to demonstrate that they are operating openly, fairly and transparently. This could be through a variety of resources such as website, press releases, social media, events, etc. Improvements in the communication of available codes of practice would be beneficial to organisations.

How should charities assess their long term viability and/or sustainability?

6.2 Charities need to have good risk management measures in place that are regularly monitored and reviewed. The ability to be adaptable and to be prepared for political, economical, social, technological, legislative and environmental changes is essential for the sector. Staff and trustees also need to be sure they fully understand the purposes of the charity, and its ethos must be fully embedded within the organisation.

Resource management

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

7.1 The key challenge facing charities is the current financial operating environment. We have seen a slow economic recovery and enormous reforms to both the size and shape of government spending. Charities have had to come to terms with this new operating environment, characterised by reducing public finances and increased demand for services.

Charities have demonstrated great resilience in the face of major changes, rebalancing their finances away from public sources and towards private sources and the general public where possible. Their attempts, however, have often been at their own expense, especially for smaller to medium sized charities. In trying to do more with less, organisations have eaten into their own reserves, cut investment in their own capacity, reduced expenditure on training and frozen staff salaries, whilst staff have increased their working hours or used more volunteers to fill gaps – all to avoid reducing the support they offer to the most disadvantaged communities across Wales.
Not only is this approach for sustainability questionable, there will come a point where particularly, small and medium sized charities will seriously hamper their ability to secure different forms of funding, even when it is available.

**How can these challenges be overcome?**

7.2 In these challenging times it is important more than ever that charities seek to reduce their dependency on single sources of funding, particularly if it is from the public sector. There is a real need for organisations to explore opportunities to diversify their income base and strengthen their capacity to do so. Both funders and the charities have a role to play and the following points outline some of the opportunities to do so:

- Charities need to begin working now to identify areas where savings can be made and design strategies for achieving them.
- Charities will need to plan ahead and consider how they balance short-term demand with long-term sustainability.
- Maximise the use of resources by sharing back-office functions, pooling resources by working together or using technology to reduce costs.
- Organisations will need to ensure they are in a position to win government grants and contracts, whether that is through improved collaboration, demonstrating their impact or piloting new ways of working.
- Organisations will need to take additional steps to build a better picture of demand and what resources are required to meet need. This will bring about a much more focused discussion around the sector’s finances and what is required in terms of support.
- Organisations should do more to spread the lessons of success whilst also recognising the limitations of replicating a ‘one size fits all’ approach.
- Charitable trusts and foundations have a growing role in the adaptation of the sector as one of the few remaining providers of unrestricted funding. Foundations may need to reconsider their role as strategically important funders for the sector in the light of these changes. More co-ordinated or different approaches to funding the sector may be necessary to compensate for the loss of government income, for example for capacity building.
- Charities need to develop their measurement and communication of impact, highlighting the rising demand for services, including the extent of unmet need or what can be gained from preventative services.
- Government to take further steps to improve current commissioning policy and practice and ensure charities are able to realise their potential role in delivering public services.
• Grants are a critical source of income for the sector and some services are not sustainable under a contract model. The public sector will need to work with charities to ensure that appropriate funding mechanisms are used by commissioners. This is important to avoid a ‘contract culture’ that may affect the long-term sustainability of the sector.

• Central government should consider how tax reliefs such as business rates and Gift Aid can be better implemented to maximise charitable income.

• The relationship between the government and the third sector is changing. The government should renew and strengthen its commitment to strategic partnership working – for example, local compacts - to ensure partnerships continue to be relevant and effective in a changing operating climate.

How can best practice and information be shared across the sector?

7.3 In terms of sharing best practice there are number of suggested routes:
• Sharing the same physical space - i.e. where an organisation has created a shared space that charities can work out of and the conversations occur through natural interaction.
• Network or ‘peer-to-peer’ events – it’s important to bring charities together to share war stories, swap ideas and hear from others who have ‘been there and done it’ and share any new approaches.
• Traditional communication channels such as newsletters, information sheets, guidance notes and case studies.
• Utilising online space such as websites, social media, LinkedIn etc. LinkedIn is great source of content and insights, especially the news feed where you can break your news down into particular categories which you can follow. The groups on LinkedIn are also useful sources of discussion and ideas.
• Share best practice between boards, where the board of one organisation meets with a board of another organisation and shares experience of dealing with challenges and issues.
• Mentoring and coaching arrangements between different organisations can also be a good way of sharing good practice. Arrangements like this can bring different perspectives to bear when addressing shared challenges.
• Having an online document library is useful for those who are resource-restrained and time-poor. Being able to access examples of best practice easily and without having to ‘re-invent the wheel’ is very important.

What lessons can be learnt from past mergers or dissolutions of charities?

7.4 We acknowledge that mergers or dissolutions of charities are by no means easy. Mergers can be delicate and complex to navigate, and when charities fail can have severe consequences both on the services provided and the reputations and
financial stability of the charities involved. Therefore charities must take all steps necessary to ensure success.

One of the key success factors is to ensure that effective governance is in place to support the process. Having access to clear and accessible guidance on either mergers or dissolution of charities is extremely important. Making sure that charities are aware of the type of support that is available and how they can access it, ranging from free or pro-bono support to affordable paid for services.

**How can charities effectively deliver services and be assured that their work achieves successful outcomes?**

7.5 Having charities and their funders understand what difference they make in meeting identified need is crucial if we are to improve what we all do. Getting better at helping those people we support at a time when extra financial resources to achieve more outcomes are unlikely to be forthcoming, making the resources we have work harder and more effectively is a must.

It is not easy for many. While almost everyone wants to do good, they rarely came into the sector driven by a passion for measurement and evaluation. So they need help and they need a degree of encouragement to recognise the benefits of outcome measurement approach to demonstrate impact.

An outcomes approach allows an organisation to find out about the effects it is having and the changes it is making to the lives of the people it was set up to benefit. An outcomes approach can also help an organisation to establish whether it is successfully meeting its aims.

Many funders increasingly want to demonstrate that their financial support makes a real difference to the communities that they support. Consequently, funders are interested in knowing the exact difference that your actions will make to the people you aim to benefit and the long-term changes that your actions will contribute to. An outcomes approach allows an organisation to do this.

Developing outcomes can help an organisation work more effectively by:

- Establishing services based on evidenced need rather than supposition
- Help you focus on exactly what you need to deliver to achieve your aims
- Creating a shared understanding of what your work should achieve
- Providing evidence to influence future service delivery and requests for funding
- Identifying what course of action works well or not so well
Recognising the positive difference you make and celebrating your success

Improving the way you monitor and evaluate your activities and report on success

**What are the benefits and challenges of funding for charities being derived from commercial contracts?**

**7.6** The Government is promoting the role of the sector in public service delivery because of the added value it brings and its ability to serve hard-to-reach groups. The sector’s overall role in public service delivery is still very small so there is still plenty of scope for the sector to do more. But public service delivery will not suit all charities. There are potential risks and constraints.

- A contract is a commercial agreement and the income from it may be liable for tax and VAT.
- Delivering public services may distract the organisation from its primary aims or undermine its independence.
- There is also a danger that contracts are underfunded so that the organisation can only provide a substandard service or has to use its own resources.
- Achieving Full Cost Recovery is essential to long term sustainability.
- And for charity trustees it is against the law to use charitable resources to subsidise public services.
- Unspent funds on a contract are a surplus the charity may retain as reserves.
- By being close to service users and communities, charities often have a unique perspective on needs and how to improve services. This includes identifying where earlier intervention could have prevented crisis.
- Often based within the communities they work with, charities bring a local expertise to public service delivery and are able to reach and provide a voice for some of the most marginalised and isolated people.
- Charities are also able to use their advocacy role to apply the knowledge and expertise gained through working with service users to influence service improvement.

Social investment

**8. What is the potential of social investment and social impact bonds?**

**8.1** We believe that social investment has an important role to play in the funding mix for charities but getting the right mix of available investment products is vital. At times the difference that social investment can make has been overstated. It is not a holy grail for the difficulties in charitable funding. However, it will increase in importance and, from being a social investor in Wales for over ten years, WCVA has
seen the difference that social investment can make in our most deprived communities.

We also treat social impact bonds with caution and have in Wales championed a slightly different approach with our Wales Wellbeing Bond. The model does have potential but the complexity of the model, investment and repayments makes them labour intensive and long in gestation.

**What are barriers to fulfilling their potential?**

8.2 The main difficulty with the social impact bond model is that the savings to the public purse generated through activity undertaking using investment are often accrued across Government departments and devolved administrations. There is currently no mechanism for the savings generated to be released to repay the initial investment without creating the type of standalone funds that the Cabinet Office has operated in England.

Social investment models need to be more about bringing the finance and investment sector to the third sector rather than the approach of bringing the third sector to a rigid finance and investment sector.

**The role of the Government**

9. **What should the role of Government be with the sector?**

9.1 These comments are made in the context of our primary relationship with the Welsh Government and enshrined in the key Third Sector Scheme. The sector in Wales has links with Westminster where policy is non-devolved and also where organisations operate across the UK.

As we said in our 2013 response to Welsh Government’s *Continuity and Change consultation*, the third sector needs to continue to be an essential route for Welsh Government to engage with people and communities. It’s also important for Welsh Government to continue to be accessible to the sector as a vital funder of much of the work that it does.

**What should be the role of local Government?**

9.2 Local government can support the sector in its work towards achieving the seven wellbeing goals of the Wellbeing of Future Generations (Wales) Act, whether through advice, funding, or signposting towards other agencies. The third sector is
often also better placed than local government to understand the needs of local communities, so local government should strive to engage with the sector to learn more about community needs.

Local authorities should also listen to and encourage innovative ideas during any commissioning processes.

The Wales Audit Office are currently reviewing local authority funding of the third sector and the forthcoming report might be of interest to the Committee.

**What should be the role of the Charity Commission?**

9.3 To provide guidance, signpost to support for charities to improve effectiveness and embed good practice.

As the regulator, the Charity Commission could conduct advisory visits that are non compulsory, voluntary assessments of compliance. As a result of their findings they could issue suggested guidance on areas that need to be improved. This approach would inevitably be a strain on Charity Commission resources but the impact of this could help to increase public confidence.

**How should Government (national or local) focus its resource to deliver its civil society agenda?**

9.4 Activity across government will impact on civil society and it’s important that government considers and understands this. In Wales, the Welsh Government Cabinet Secretaries meet regularly with representatives from the third sector to discuss opportunities to work together on shared goals as well as raise issues of concern. These mechanisms are set out in the Welsh Government’s Third Sector Scheme.

Open government enables a wide cross section of civil society to engage with government as well as hold government to account.

Many charities, particularly larger ones, are well placed to deliver services on behalf of government and public bodies. Commissioning and procurement processes need to be inclusive, reflecting charities’ close understanding with members and service users. However, the social, economic and environmental value that charities bring to society is much greater than this. A clear understanding of this is needed by government so that it can also understanding when and how best to invest in
charitable activity beyond delivering direct services, and how to create that wider environment in which third sector groups can flourish.

**What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?**

9.5 Strengthening local devolution could see the sector become more involved in areas they have previously not worked in, in turn giving greater opportunities for community involvement and participation in service delivery. The draft Wales Bill has proposed Welsh Cabinet Secretaries and Ministers should be able to legislate in areas such as energy and transport. Although the sector is already involved in these areas, devolution could allow the sector to work with Welsh Government to play an even fuller part in community energy and sustainable transport initiatives, making Wales more resilient, cohesive and prosperous, as outlined in the Wellbeing of Future Generations (Wales) Act.

**What are the opportunities and challenges associated with local devolution?**

9.6 The biggest opportunity is, as discussed, the chance for the sector to get involved in new areas and widen access. Seeking greater engagement from individuals and communities to demonstrate voice, choice and control. Increased demand and reduced funding require collaborative and innovative responses.

*Lessons from other sectors and countries*

10. **What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?**

10.1 The sector can learn from others within the sector, especially UK-wide organisations working across devolved administrations. The arrangements and working links with different Government departments and funders is also a rich source of evidence and data. Opportunities to learn from funders who support initiatives in different parts of the UK are also useful – e.g. BIG, BBC Children in Need and others, including work undertaken by the Wales Audit Office and the Good Practice Exchange.

*5 September 2016*
Wellcome Trust — Written evidence (CHA0164)

Key points

- The UK has a vibrant charity sector. Our independence, flexibility and long-term view means we are able to tackle complex challenges, pilot projects and support initiatives that may not be attractive to public or commercial organisations.

- Charities are often not adequately consulted about regulation that impacts our sector, and the Government must address this. We would also caution against knee-jerk reactions to recent high profile controversies involving charities as the vast majority are highly accountable, well governed and transparent.

- The Government should continue to support the charitable sector. This includes the vital Charity Research Support Fund.

Introduction

1. Wellcome exists to improve health for everyone by helping great ideas to thrive. Over the next five years, we intend to invest up to £5 billion on research to improve health. We’re pleased to respond to the House of Lords consultation on charities in England and Wales. Our position as the UK’s largest charitable foundation, not reliant on donations and both politically and financially independent, gives us a unique perspective on the issues related to sustaining our sector.

Consultation focus areas

The role and purpose of charities

2. Charities have a vital role in civic society. All charities exist for the public benefit, guided by their charitable objectives. Charities are independent and are often able to take a long-term view, giving them flexibility in how they operate. The importance of this flexibility cannot be understated. It has allowed Wellcome to respond rapidly to emerging threats such as the Ebola epidemic, as well as work catalytically to develop solutions to problems such as open access to research data. For the last two decades we have taken a leadership role in this space, becoming the first funder to introduce a mandatory policy on open access to our funded research publications in 2005.

3. Our independent status gives us the opportunity to support projects and initiatives that may not be attractive to others. For example, our free visitor destination in London, Wellcome Collection, operates in a unique space and explores the connections between medicine, life and art through exhibitions and events. In 2015, we completed a £17.5 million redevelopment to transform the building with new galleries and expanded public spaces.

4. Charities generally work well in coalition, as they do not tend to see other charities as competition in the same way as commercial organisations. Umbrella bodies like the Association of Medical Research Charities, the Association of Charitable
Foundations, the Charity Tax Group and the Lawyers in Charities Group combine the resources and expertise of their member charities. These create additional value and a strengthened voice for our sector.

5. In addition to working with umbrella organisations to maximise impact, Wellcome has forged a wide range of partnerships with a broad spectrum of other organisations. This includes our joint investment in the Wellcome Trust-Medical Research Council Cambridge Stem Cell Institute, an international centre of excellence for research into stem cell biology and stem cell medicine. Another example is our work with a consortium of 13 pharmaceutical companies to provide access to clinical trial data via the ClinicalStudyDataRequest.com platform.

Pressures faced by charities

6. The 2015 results of our representative Ipsos-MORI survey[^573] on attitudes to medical research, science and health show that 37% of the public have complete or a great deal of trust in medical research charities, down from 60% in 2012. The reason for this drop is not clear, but trust in UK charities has likely been impacted by a number of recent high profile controversies. However, we would caution against knee jerk reactions by the Government in response to these cases. The vast majority of charities work effectively and transparently, and it is important that our sector’s unique voice isn’t stifled and we are not negatively impacted by disproportionate policies.

7. In addition to this, we are concerned that changes to regulation often impact civil society organisations in a way that does not appear to have been properly considered and does not reflect the primary driver of the proposals. We believe that this is often due to insufficient consideration of the breadth of the charity sector, and variations in sizes, structures and funding models. A number of examples are included below, and we hope that in the future, there will be more consultation with our sector on legislation and policy that affects us.

- Charities are no longer able to claim R&D Expenditure Credit. This is despite many employing researchers and paying employment taxes. This imposes costs on charities that are not applied to equivalent commercial organisations.

- In the Corporation Tax Code 2010, Section 455 imposed additional charges on charities because no distinction was made between loans to a charitable trust for charitable purposes and loans to charitable trust for the benefit of the trustees. The tax was aimed at the latter, but it took three years to amend the legislation to reflect this.

- There was no consultation around the Government’s recently-paused anti-lobbying policy. This would have affected medical research charities, and others, as our grant holders often have funding from other public sources.

[^573]: [https://wellcome.ac.uk/what-we-do/our-work/public-views-medical-research#wave-3-2015](https://wellcome.ac.uk/what-we-do/our-work/public-views-medical-research#wave-3-2015)
Wellcome Trust — Written evidence (CHA0164)

8. The UK is an excellent location for science, which is why approximately 80% of Wellcome funding is spent here. Following the UK referendum decision on membership of the EU, the Government and the science sector must work together to address uncertainty, taking action to mitigate risks and identify potential opportunities. In particular, mobility and collaboration between UK and EU researchers should continue to be encouraged and supported. In withdrawing from the EU, there will also be opportunities to review regulation, although this should not lead to diverging legislative approaches and standards that, for example, could limit the ability of charities to undertake cross border projects such as clinical trials.

Accountability and Leadership

9. To capitalise on their unique position and maximise public benefit, charities must have robust governance and strong management. Management of a charity requires skills at least on a par with any commercial organisation. Therefore, charities must be able to reward people appropriately for their skills and expertise. Accountability is also vital for charities to maintain and strengthen their reputations. Charities are already accountable in prescribed and voluntary ways. They are required by their regulators to make their operations open and accessible. However, there is always potential to do more. To bolster greater public trust and support, charities should be transparent about their aims, and the outputs and outcomes of their activities.

The role of Government

10. The Government should continue to ensure it provides adequate support for the charitable sector. We value the Charity Commission’s role as a regulator and appreciate the clear written guidance it provides. However, we have concerns that its resources have been reduced dramatically over the last five years. A new model proposing charging charities for the Charity Commission has been mooted. We believe this does not take into account the breadth and variation across the sector. Imposing additional costs on smaller charities may have a disproportionate effect on their ability to work for the public good.

11. The strength of UK science is a direct result of the unique interplay between public, private and charitable investment. UK medical research charities spend £1.3 billion a year, predominantly in universities. The Government’s Charity Research Support Fund (CRSF), currently administered by the Higher Education Funding Council for England, helps to support this by meeting the indirect costs of this research. While charitable investment has continued to increase, the size of the CRSF has flat-lined since 2010. Our investment in the UK depends on the CRSF, and its existence also signals that the Government recognises the importance of our funding.

Lessons from other sectors and countries

12. The UK has a dynamic environment for philanthropy. Medical research charities are particularly vibrant — in 2015, the sector supported the salaries of at least 15,000 UK researchers, largely in universities. We therefore encourage caution when comparing this country’s charitable sector to other countries, as they do not have the UK’s distinctive environment and structure.
Wellcome exists to improve health for everyone by helping great ideas to thrive. We’re a global charitable foundation, both politically and financially independent. We support scientists and researchers, take on big problems, fuel imaginations and spark debate.

15 September 2016
1. The scope of our response

1.1. WhatWorksInclusion is a CLG created to support community-based not for profits working within the employability and related sectors.

1.2. We have submitted this paper in order to answer some of your specific questions in the context of the smaller organisations with which we work. We will address: the main pressures currently faced by charities; the impact these pressures have and the digital innovation we are creating through WhatWorksInclusion which is intended to alleviate some of these pressures and help organisations thrive. We thought that, in the context of your inquiry, you would be interested to hear about the project, which is in its early stages of development, and its progress to date.

2. What is WhatWorksInclusion?

2.1. WhatWorksInclusion is a community of smaller not-for-profit organisations delivering economic and social inclusion-related support. It is centred upon a web-site Hub which enables its’ members to share good practice from their own settings and from the wider sector. Research, policy initiatives, evaluations and other learning is made available on the Hub, conveyed in an assessable and inclusive format. The Hub is supplemented by networking, coaching, mentoring, training and events enabling organisations to learn, improve, scale and replicate their activities.

2.2. It is our objective that higher visibility will bring these organisations to the attention of government and other funders and assist local authorities and LEPs to make connections and recognise what provision gaps exist in the local area.

3. The problem we are seeking to resolve and its impact upon society

3.1. UK citizens continue to suffer considerable social and economic exclusion. The Institute for Fiscal Studies forecasts that in 2020 1 in 4 children in the UK will live in relative poverty and 2.6 million in absolute poverty. This is despite numerous interventions financed from central and local government budgets and European grant aid to get the most marginalised in to good sustained employment. Much of the work is undertaken at community level by smaller organisations.

3.2. Learning from this activity is rarely shared between practitioners because there is no medium to do so. Practice that may be regarded as routine by the practitioner could be exceptional but its impact is not fully understood or known. It is therefore not shared, adopted more widely or recognised nor is it measured or evaluated effectively. These programmes are often of very short duration and are frequently not delivered in a manner that is sustainable. Delivery may be ad hoc with practitioners unaware of what best practice is, why they do what they do, what their impact is and whether it is of
sufficient quality. Funding is being wasted and insufficient numbers of beneficiaries are making progress and achieving positive outcomes.

3.3. The delivery system does not work: small organisations are excluded from the discourse. There is no mechanism for them, or with them, to share, learn, shape and impact on social outcomes. The way services are commissioned, delivered, contracted, perceived and evaluated almost serves to reinforce a form of economic and social exclusion within the delivery system. There is an inherent ‘exclusion’ or ‘segregation’ as smaller VCS projects are perceived as irrelevant, not involved or consulted with (often because they are many and diverse).

3.4. This affects how policy is shaped, how commissions and contracts are won, and how, in the end, local people in the most need often continue to miss out for generations. This is despite a stated ambition in Government to work more effectively with the charitable sector and smaller organisations. As an example DWP is currently tasked to work towards a target of 33% of their contractors to be from smaller SMEs.

3.5. A quote from the CEO of Groundwork in a recent report illuminates the challenge for the new Work and Health Programme: “Using the combine harvester deployed in the wheat-field to tend the plots in an allotment is a recipe for failure.” To date, Work Programme contractors or Government have been the combine harvesters: a mass scale, high volume solution to a complex problem. What’s needed now, in this analogy, it to ‘till the soil’, to attend to the detail, to get in to communities where people have been left out. To do this, we need to know ‘what works’ and be able to share this effectively and in a way that the sector can benefit from.

4. Our solution

4.1. The WhatWorksInclusion Hub creates a community space enabling its membership of small organisations, charities and social enterprises, who often have limited resources, to access, shape and share good practice. This is a collaboration of like-minded operationally-active organisations and practitioners.

4.2. The sharing of knowledge and working practice will uncover what works best (and what is less effective) and will support the scaling of provision, its continuity or its replication elsewhere. The Hub provides a creative space where innovation as well as the basics of good activity can be seen and discussed. It provides a portal to access other research about what works which will include evaluations, reports, evidence and latest thinking - keeping members up to speed with the most impactful interventions.

4.3. In time the Hub will be supplemented by inexpensive, accessible and inclusive opportunities for members to meet in networking and learning environments.

4.4. The Membership will offer researchers, evaluators and government the best examples of “what works” for them to critique, highlight and measure impact.
5. Expected/achieved results

5.1. In the first three years of the programme our target is to attract 400 members. We expect the membership to grow exponentially as “early adopter” members become more active in their local areas and run their own “pop-up” events. As the membership grows the Hub content will become richer as more expertise and practice is shared and this too will encourage membership. A programme of training, mentoring and coaching opportunities and events will be tailored to the needs of the membership.

6. Project goals and time frame

6.1. Ultimately we want every community organisation that delivers employability-related support to consider joining WWI. In our first three years we want to make a compelling argument to these organisations that the benefits of joining are such that they are disadvantaged by not joining.

6.2. In the first twelve months of the project (to Sept 2017) we are concentrating on the design, testing and proof of our concept with 10-15 selected organisations (our Design Partners) who will act as our core membership and critical friends. The website will be designed and launched (on target to launch in October 16). We will run regional events and develop a suite of learning activities. By the end of the period we will have 50 members.

6.3. In the second year we will reach a membership of 250, our events will become “pop up” with local membership starting to take responsibility for them. A comprehensive training offer will be available to all members through Action Learning sets, coaching, mentoring and advice sessions.

6.4. We will achieve 400 members by the end of year 3, by when we expect the project to be self-sustaining financially through membership fees, training and events income, events sponsorship and consultancy revenue.

7. Consultation and stakeholder engagement across the sector

For the past nine months we have been undertaking consultation with senior thought-leaders in the wider-employability sector, testing our ideas and refining the project objectives and its design – in order to ensure that the project will have adequate reach and credibility to maximise its chances of success. Here are some of those with whom we have discussed the concept of WhatWorkInclusion and who support our objectives.

- Dave Simmonds OBE – Founder and Chief Executive, Centre for Economic and Social Inclusion (Supporter, Endorser)
- Tony Wilson – Director of Policy, Learning & Work Institute (Supporter, Endorser)
- Mark Fisher CBE – Director of the Office for Civil Society and Innovation, Cabinet Office (Supporter, Endorser, Critical Friend)
- Stephen Ram Kissun – Head of Membership and Marketing, Association of Employment and Learning Providers (Supporter, Strategic Partner)
WhatWorksInclusion — Written evidence (CHA0081)

- Jo Casebourne – Programme Director, Institute for Government (Supporter, Critical Friend)
- Liz Sewell – Director, Institute of Employability Professionals (Supporter, Strategic Partner)
- Dan Corry – Chief Executive, New Philanthropy Capital and Tris Lumley, Director of Development (Supporter, Critical Friend)
- Christine Chang – Senior Director Investment, Big Society Capital (Supporter, Critical Friend)
- Sean Williams – Independent Consultant Employment and Skills sectors (Supporter, Critical Friend)
- Carrie Deacon – Programme Manager, Nesta (Critical Friend)
- Steph Taylor – Head of Talent Match London Partnership at London Youth (Supporter, Endorser, Design Partner)
- Graham Duxbury – CEO, Groundwork (Supporter, Endorser, Design Partner)
- Dr David McGavin – Founder & Jonathan Shaw – Chair, Blackthorn Trust (Supporter, Endorser, Design Partner)
- Stephen Parry - Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA, north west)
- Jane Mansour – Independent Consultant (Supporter, Endorser, Critical Friend)
- Pauline Doyle - Unltd Venture Manager (Supporter, Endorser, Critical Friend)
- Toria Buzza - Plus Dane Housing Association (Supporter, Endorser, Design Partner)
- Richard Brass - Head of UK Clients, Berenberg Bank (Critical Friend)
- Janette Faherty OBE – Entrepreneur (Critical Friend)
- Lynne Johnson – Chair, The Collusion Network (Supporter, Endorser, Design Partner)
- Ed Sellwood – Cospa, VIY, social enterprise
- Elizabeth Taylor – CEO, Bootstrap Enterprises (Supporter, Endorser, Design Partner)
- Mike Burke – Managing Director, Embrace Learning (Supporter, Endorser)
- Dr Val Lowman OBE – Founding Director, Be OnSite (Supporter, Critical Friend)
- Tricia Hartley – Former Chief Executive, Campaign for Learning (Supporter, Critical Friend)
- Paul Wolstencroft – Consult PW (IT and website design support)

8. Testimonial
We are particularly proud to have the support of Dave Simmonds OBE, Founder of the Centre for Economic and Social Inclusion, who has said:

“WhatWorksInclusion is an idea whose time has come. We need to help small community organisations to do what they do best - reach people and communities that are too often overlooked. What is needed is practical help, learning from each other, and an emphasis on collaboration. WhatWorksInclusion will improve how small organisations learn from each other. This is vital for not just stimulating new ideas but also how organisations can
thrive in a world that can be dominated by big programmes and big providers. Innovation is always important but what is more important is to know 'what works' in responding to the needs of excluded people and communities - and doing more of it.”

5 September 2016
Questions:

**Purpose of charities**

1. **What is the role and purpose of charities in civic society in England and Wales?**

   1.1 Providing services within geographic communities or (communities of interest) in response to identified need from individuals or groups experiencing disadvantage or inequality. Providing (humanitarian) services that the state can’t or won’t provide.

   **How has this changed?**

   1.2 Rather than being a complement to statutory services, charities are now having to pick up statutory services’ ‘slack’, even at the point of crisis. The expectation is now that we work in partnership with statutory agencies and align with their priorities.

   The scope, scale and spectrum of charities has broadened massively. Whilst very small scale charities employing only one person still exist, others have now become huge corporations with all the bureaucracy, rigidity and cultural challenges of a statutory organisation.

   There is seemingly a major difference between the way charities are viewed by their local authorities in urban and rural areas.

   **What makes them distinct from other organisations doing similar work?**

   1.3 Innovation and quality. Charitable organisations’ autonomy to determine their own methods of working, flexibility and own setting of outcomes and targets.

   **What role can charities play in community cohesion and civic action?**

   1.4 Small and medium sized charities have an underlying philosophy of community development and social inclusion whether of geography or interest, that adds value to all interventions.

   **How does the sector benefit from volunteering?**

   1.5 Volunteers enrich the services we provide. While many charities could not exist without volunteers, the charitable sector is increasingly being driven by professional practice, which can have the effect of deterring volunteers.

   **How has the status of volunteers changed?**

   1.6 David Cameron’s various calls to arms make it possible that volunteering has become more of a duty than a pleasure? There is a sense that the role of volunteers is diminishing as well as the desire to volunteer. Many retired people are affluent and
have few connections to their communities, often having moved into new areas. Less well-off people have to work for much longer and don’t have the time or energy to volunteer.

**What challenges do charities face in trying to fulfil their role in civic society?**

1.7 Trying to take on roles previously provided by statutory services with no money. Financial insecurity that makes it difficult to plan.

**How can these challenges be overcome?**

1.8 Primarily with contracts/funding.

**Pressures and opportunities**

2 **What are the main pressures?**

2.1 Mismatch of people that the NHS want to refer and our skills and capacity to work with them e.g. greater (and ever increasing) numbers of people with complex, severe and enduring mental health problems being referred – our remit is mild to moderate conditions.

2.2 Numbers of more complex clients needing to be seen vs. need for ‘turnover’ of clients to enable targets to be met. NHS pressure through e.g. their development of new models of Primary Care where NHS directs patients to the voluntary sector for early intervention or management of diagnosed conditions, irrespective of VCS capacity or funding.

**Innovation**

3 **How do charities seek to innovate?** (We will exclude the digital aspect of the question as we believe that this promotes impersonal and distant services that are not inherently helpful to people seeking support)

**Promotion of innovation – how?**

3.1 We believe that innovation should be client led and should sometimes include taking risks. It should be a result of encouraging staff to think critically and creatively. And by having a very strong vision and high expectations for one’s organisation and its beneficiaries.

**What barriers are there to being innovative?**

3.2 Finance, people’s safety, institutionalised thinking, possibly reputational issues.

**Governance and leadership**

4 **What skills are required to lead and manage a charity?**

Could we add ‘knowledge’, ‘experience’ and ‘values’ to skills?

4.1 An in depth knowledge of beneficiary group/s and preferably direct experience of working at grass roots level. An understanding of both personal and community
development. Understanding of the wider determinants of health and mental health, which underpins every other aspect of health and wellbeing. Excellent communication – written and spoken. Excellent partnership and collaborative skills. A working knowledge of the interconnected structures that underpin government and society. Local knowledge. Integrity. Negotiation skills. Professionalism in all areas, being responsible for the organisation and being accountable. Management, leadership and (usually) fundraising skills.

**How can these skills be gained?**

4.2 On the job, with suitable mentoring and support.

**What support exists to develop these skills within the charitable sector?**

4.3 Various training courses covering aspects of the above, usually too expensive and in London or Manchester/Birmingham incurring further expense.

4.4 Peer learning groups. Training and support occasionally offered by local authorities. Volunteer mentors with appropriate skills and experience. Learning by experience, questioning, forming trusted partnerships and sharing knowledge and experience.

5 **What role should the trustees play in the performance and effectiveness of the charity?**

5.1 Underpinning the knowledge base of the leader/CEO with their specialist knowledge and support. Taking collective responsibility for making difficult or critical decisions. Support, challenge and acting as a critical friend to the CEO. Keeping abreast of local and national politics and decision making that affects the charity’s area of operation/expertise. Raising the profile of the charity, publicly supporting its work and ensuring plans are in place for it to achieve financial sustainability.

**What, if any, changes for the current arrangements?**

5.2 To our charities, currently none.

**Accountability**

6 **How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?**

6.1 A good question. Through different reporting requirements and methods including annual accounts, but ultimately by doing the best they can (weighing all factors) for every beneficiary. The development of an organisational culture of responsibility and accountability as the norm, to the extent that any deviation from it would trigger alarm bells from colleagues or trustees.

As a minimum, effective reporting and data collection systems must be in place, agreed with funders and providing measurable outcomes and data that stand up to close inspection. Work should be outcomes based, outputs being secondary. Work should be able to be measured transparently against all policies of the organisation and of the appropriate certifying or regulatory bodies. All income and expenditure
should be clearly shown in properly managed accounting systems and be subject to annual external scrutiny.

**What if any changes might this mean for current arrangements?**

6.2 To our charities, currently none

**How should charities assess their long term viability and/or sustainability?**

6.3 Through good leadership and governance. By ensuring that the needs that the charity was set up for, still exist and that the charity has a vital role to perform. By constant horizon scanning for relevant changes in government policy or practice, at all levels of government. By writing (and regularly updating) a detailed business plan with accurate financial projections and by constantly measuring performance against same.

**Resource Management**

7 **Challenges to financial sustainability**

7.1 Unpredictability of funding – short term funding for projects, contracts etc.

**How can these challenges be overcome?**

7.2 By the NHS and local authorities viewing the sector as the solution, not the problem and giving it equal status

**How can charities effectively deliver services and be assured that their work achieves successful outcomes?**

7.3 By working to the highest possible standards using person centred, evidence based, professional services in a safe, respectful and nurturing environment.

8 **Social investment & social impact bonds**

We have no experience in this area.

**The role of the Government**

9 **What should the role of the Government be within the sector?**

**Local Government**

9.1 To actively, not just ‘tokenistically’, or whimsically, support the voluntary sector to thrive. To understand that ‘voluntary’ doesn’t mean that services are delivered/ run by volunteers and are therefore free of charge. Or alternatively that they are delivered/run by volunteers and therefore aren’t very good!

To understand that VCS services are effective, cost effective, add value and are often cutting-edge, but above all treat people with respect and as individuals. (Which helps their conditions and/or recovery)

**Role of the Charity Commission**
9.2 Impartiality, scrutiny, maintaining central records. Supporting, informing and briefing the sector on key issues.

9.3 To campaign to increase the status and profile of the sector

**Government’s Civil Society Agenda**

*What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?*

9.4 Possibility of more – or conversely, even fewer resources/funding. Money could be completely wasted on setting up new services that do not take into account the existing skills, knowledge and experience contained within the voluntary sector.

*24 August 2016*
Mr Brian Winder — Written evidence (CHA0017)

Evidence to the Lords Select Committee on charities

I beg permission to send in this submission to your honourable committee.

I will divide it into 4 parts:

1. The kind of charities I am referring to in this paper.
2. Appendix 1: A brief summary of my work with charities or voluntary bodies at a senior level over the last 22 years after my retiring from my career in the City of London. This shows that I have some qualification to comment on this sphere. For the vast majority of the 22 years I worked in the thick of it without pay: truly voluntary!! I summarise this on a separate file.
3. Sample Evidence from Essex of the collapse of voluntary bodies / charities which were doing very good & necessary work —— due to lack of funding caused by the gulf that statutory bodies put between themselves and the voluntary bodies.
4. An attempt to answer your questions.

Part 1: The kind of charities I am referring to in this Evidence.

You did not specify what kinds of charities you were referring to, so to simplify things we can divide charities into 3 broad types:

- Charitable trusts who distribute funds
- Charities collecting for overseas services.
- Local charities which help people in need in the UK.

1. I do not see that we have a right to make any comments on charitable trusts. They are regulated both by law and by their own rules.
2. I do not see that there is any need to comment on overseas charities. Say Water Aid. Again they have their own rules and are regulated. They may pay their CEOs vast sums of money, but it up to the public as to whether to choose to support them or not. Caveat emptor.
3. So the rest of this paper is about local charities which help people in need in the UK.
Part 2: See table below

Part 3: Asample Evidence from Essex of the collapse of Voluntary Bodies or charities

I will take this sample from the sphere of mental health.

I choose this because there is evidence that mental health problems are getting more and more serious over the years.

Unskilled jobs are constantly disappearing due to automation, and there are more people unemployable and feeling worthless and depressed.

Television showing how the other half lives exacerbates this feeling of frustration, especially among the young.

So this is a good sphere to examine in its statutory-voluntary relationship.

The NHS being short of funding is not the major problem in this. NEP (or NEPFT) is the NHS body with responsibility for mental health in North Essex. It has a budget to my knowledge of about £100,000,000.

I was an elected governor of NEP for 3 years (2010 to 2012 incl), and I saw grave faults in it (which I might note would not be improved by handing it over to some private company)

Working in the homelessness sphere, I knew a number of people who were patients at NEP’s mental health hospital at the Linden Centre in Chelmsford. These patients said that there were no talking therapies and no empathic one-to-ones. Just pills.

This would square with what one might expect. Charities having small groupings and intimate relationships are far more likely to be successful in the mental health sphere. And they are.

The great NHS reform of Andrew Lansley did nothing to improve the situation, and only worsened the situation by complicating it. It put Health as the responsibility of the County Councils, without defining the parameters between the County Councils and the NHS, and also not taking account of the County Councils being more and more stripped of Central Government funding. And the main problem of the County Councils is that they are not in contact with the patients as the NHS itself is. We call Essex County Council Fortress Essex County Council.
So a lot in the mental health sphere depends on charities and smaller services.

Let us note the history in that sphere as I have seen it over the last 6 years:

- About 6 years ago all the day centres for mental health in towns in Essex funded by the NHS were closed down. After that, mental health clients described to us how they now wandered around town forlorn, not meeting a friendly face, depressing them still further. Volunteers who largely ran those day-centres appealed to the authorities to just pay the rent and utilities for 2 afternoons a week, and they would run the facilities themselves without the need of staff. I remember one very vocal meeting in Epping at which this suggestion was put forward. No, the authorities decided that they had to run them at full cost or not at all. No lateral thinking was allowed to devise a way of running them cheaper. They were all closed down.

- About 5 years ago Chelmsford MIND was closed down. It had been doing useful work with patients from the Linden Centre, but it had not enough funding to continue. Southend MIND stepped in to provide just a minimalist service in Chelmsford, but the majority of the service was closed down in Chelmsford.

- Maldon MIND had an excellent service, including a telephone phone-up service at night, which was widely used and much appreciated. Very recently due to lack of funding, Maldon MIND has had to close down. Colchester MIND is said to be running some skeleton service for Maldon now, but very skeleton.

- The Haven Project in Colchester was one of the most inspirational projects I have come across, with volunteers willing to meet clients at any time of the night -- and all very much appreciated by the clients. It closed down about 2 years ago because central NHS stopped funding it, and though there was another project set up in its place, the new one was very different with a far more limited service, and not the empathy of the previous service.

- The Recovery College & Hub in Chelmsford was an experiment run by NEP to help various mental health clients with activities and studies, but it was closed down last summer (it had been 2 years in its preparation stage as “Project Hope”, and then run for 2 years)

- RETHINK is constantly starved of funding, and produces far more limited services than it did a few years ago.

So everywhere the charitable and voluntary services for mental health are collapsing.

And the funding they seek is miniscule compared with the funding of the statutory bodies themselves.

And the voluntary are the best ones --- for the clients because they work in small and empathic units --- and economically because they use lots of volunteers, and pay considerably lower salaries.

A major cause of this widespread collapse is that the statutory bodies (the NHS & the Council) which should be funding the voluntary bodies are mainly interested in themselves and their empire-building, and their keeping of their over-paid jobs rather than going out and seeing the great work that is being done by these charities for the patients.
Part 4 Answers to your Questions:

It is very difficult to answer your questions without taking account of one's philosophy on three factors:

- The huge inequality of salaries in Britain today as compared with 30 years ago.
- The fact that the success of a charity is largely dependent on its staff-client ratio.
- The fact that the object of most charities we are talking about are vulnerable people, whose condition does not change or changes only very slowly --- putting more stress and obligations on the charity.

Let's deal briefly with these before answering your questions:

a) The Inequality of Salaries: There are many “community foundations” around the country who channel funds from philanthropic individuals towards charities. Our local one, the Essex Community Foundation, says that their average donation to a charity is £2,500 pa. In a fairly typical charity paying a staff member £18,000 pa this would be only 1/7th of his salary. The charity needs 6 more donations like that to employ ONE person. If it was a health manager in the County Council for the £2,500 we are talking about, it would only be 1/48th of his salary of £120,000. There is no overall plan towards the greater good of the clients.

b) The Staff-Client ratio: One can immediately notice in charities that progress of clients depends on a high staff-client ratio. There is no hope of this when funding for staff is so difficult to obtain. There is no overall plan.

c) The extra difficulty of vulnerable clients: Statutory bodies like the NHS deal to a certain extent with quickly curable conditions like an Appendix; though, granted they also deal with less curable ones like old age. But charities deal nearly entirely with vulnerable people, whose condition may change slightly but seldom permanently: like the handicapped, the homeless, the blind, autistic people, people with mental health or addiction problems, people at Foodbanks. So in a sense, charities deal with a more problematic clientele than many statutory bodies. But their funding is immensely less --- indeed nothing guaranteed at all except for the lucky ones who still get Supporting People money from 2003, though it is fast diminishing or disappearing.

QUESTIONS OF YOURS & ANSWERS

1. Question:

The main pressures currently faced by charities, and the impact these pressures have

Answer:
The three main pressures are 1. Lack of Funding & 2. The lack of understanding of voluntary bodies by personnel in statutory bodies which should be funding them. & 3. Bureaucracy.

Lack of funding is fairly obvious, but it often proceeds from the second point: those who should be funding them in the statutory bodies do not understand the situation, and do not seem to want to.

One evidence of this is those in charge of funding simply never visiting voluntary bodies who provide services or else being very biased as to which ones they choose to visit.

Another evidence of this is statutory bodies switching over in recent years to commissioning and procurement in lieu of giving grants to voluntary bodies.

Why is this bad?

Because many charities are so poorly funded that they cannot employ the academic people who can spend many days filling in the complicated bids for procurement that statutory bodies put before them.

It is a Catch-22 situation for the charities: no money to employ people appropriate for bidding.

On Bureaucracy, it increased dramatically under Tony Blair’s government. There have been promises to reduce it but no Government body ever fulfils those promises. They only increase it.

I could give many suggestions to lessen it --- if there was the will or any desire for charities to succeed.

In the 1970s or 1980s, altruistic & philanthropic people could set up a charity and do great good for people, but gradually more and more restrictive laws have been introduced to cover the backs of everyone concerned. Now before one offers a helping hand to anyone one must compose a large manual of elaborate procedures & forms. For this one needs academic people, but one has not the funding to employ them.

2. Question:

The skills required to lead and manage a charity.

Answer:

There is no doubt that every charity needs a few individuals with high abilities. These are not easy to come by with the difficulties in funding and therefore the difficulties in paying market-salaries.

It has been suggested that such skilled individuals could come from volunteers, but when I asked my local Volunteering Agency recently for a Fundraiser and a Book-keeper (not even an accountant), I was told that the only volunteers who offer themselves are people who are bored at home and want a bit of diversion – without any particular skills.
3. Question:
The role trustees should play in the performance and effectiveness of a charity

Answer:
Trustees must play an active role in a charity. But where do you find a large enough number of such altruistic trustees.

4. Question
The role of national and local Government with the charitable sector

Answer:
It is vital that local government support charities in two ways: 1. funding & 2. understanding & support. As for funding the huge chopping of Central Government financial support for local government is causing great cut backs in Local Government subsidies to charities. You needn’t think that to balance their books local government are going to cut back on their own salaries. No, they chop down on services to the public, and that includes supporting charities.

I can quote a number of instances where central government funding to local councils is more used to build departmental empires within statutory departments rather than provide services to the public either directly or through charities.

As for support of charities, it is ideally done at local level, but given the unsatisfactory and biased situation locally, there might be some advantage making some of it national. However, we don’t want a disaster like Kids Company through interference at high levels; or the biased approach of DCLG in the years 2004 to 2009 (which I could explain).

5. Question:
The role of the Charity Commission

Answer:
I think it is probably not possible for the charity commission to do more than they are doing at the moment. They are too distant. The accounts and annual report that they now insist on is the most that they can do.

6. Question:
Charities’ accountability to their beneficiaries, their donors, and the general public

Answer:
In my opinion this is adequate at the moment. Everyone is so busy, and we should not want to impose an additional burden.

The donors and beneficiaries should themselves take the trouble to follow up this. Would that number 10 had followed that up with Kids Company!
7. Question: The effective delivery of services

Answer: Of course this could be improved since charities are of unequal commitment & delivery.

The local ombudsman should be selected more carefully and given more status and publicity.

I doubt if one in 50,000 people know his name in Essex.

Some statutory services would consider one unfavourably (especially in giving one grants) if one approached the local ombudsman about them. This should be changed.

8. Question: The current challenges to the financial sustainability of charities

Answer: As said above, and from the examples in part 3 above, funding and the unsatisfactory relationship with the statutory sectors is the main challenge in the sustainability of charities.

9. Question: Innovation, particularly in the digital arena

Answer: I do not see that as a major problem in itself.

Appendix 1

I contend that the wide experience of the Charitable Sector above is more significant that any one of the roles in itself.

All of them were direct involvement, not the superficial experience of a consultant.

22 August 2016
### Brian Winder’s work with charities & Voluntary bodies since 1994

<table>
<thead>
<tr>
<th>Involved in the following charities over the last 22 years, mainly on a voluntary basis:</th>
<th>Post</th>
<th>£ raised</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CROFT (recycling furniture for the badly off in Chelmsford) operated for 10 years</td>
<td>a Founder &amp; Treasurer &amp; fundraiser &amp; Trustee &amp; administrator</td>
<td>500,000</td>
</tr>
<tr>
<td>2</td>
<td>Mozambique Schools Fund (which funded &amp; build 5 schools in rural Mozambique, including a major secondary school)</td>
<td>a Founder &amp; Treasurer &amp; fundraiser &amp; trustee</td>
<td>150,000</td>
</tr>
<tr>
<td>3</td>
<td>Chelmsford CHESS (housing up to 30 homeless in Chelmsford, and starting &amp; running a day centre for them). CHESS has operated for 22 years</td>
<td>a Founder &amp; fundraiser &amp; Administrator &amp; trustee</td>
<td>2,400,000</td>
</tr>
<tr>
<td>4</td>
<td>Streets2Homes (day centre for the homeless in Harlow, also housing them in winter). It has operated for 15 years</td>
<td>Treasurer &amp; Fundraiser &amp; Administrator &amp; trustee</td>
<td>30,000</td>
</tr>
<tr>
<td>5</td>
<td>Essex &amp; Southend Link (precursor of HealthWatch, a lay watchdog over the health service))</td>
<td>BW published papers on alcohol addiction services in Essex</td>
<td>n/a</td>
</tr>
<tr>
<td>6</td>
<td>Being an elected Governor of NEPFT (the NHS organisation servicing Mental Health in the whole of North Essex, budget approx £100,000,000 (NB: not a charity of course)</td>
<td>Elected Governor</td>
<td>n/a</td>
</tr>
<tr>
<td>7</td>
<td>Helping Hands Essex (helping alcoholics kick their alcohol addiction &amp; accommodating them in their recovery. Current accommodation 10 beds)</td>
<td>The Founder &amp; Treasurer &amp; fundraiser &amp; trustee</td>
<td>135,000</td>
</tr>
<tr>
<td>8</td>
<td>Essex MENCAP Society (helping mentally handicapped people)</td>
<td>Treasurer &amp; trustee</td>
<td>n/a</td>
</tr>
<tr>
<td>9</td>
<td>Great Baddow Scouts</td>
<td>Treasurer &amp; trustee</td>
<td>n/a</td>
</tr>
<tr>
<td>10</td>
<td>Hope House Essex (housing &amp; supporting homeless people)</td>
<td>Treasurer &amp; Trustee &amp; administrator</td>
<td>30,000</td>
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The Woodland Trust — Written evidence (CHA0150)

1. Summary

1.1 The Woodland Trust (The Trust) is the UK's leading woodland conservation charity. Our vision is of a UK rich in native woods and trees, enjoyed and valued by everyone. We own and manage over 1,000 sites and have over 500,000 members and supporters across the UK.

1.2. The Trust welcomes the opportunity to respond to this call for evidence. We are pleased the Committee recognises the good work done by many charities. Recent high profile media coverage of the sector has revealed that some charities have not been governed well and have not behaved in a way the Woodland Trust and the public would expect. Whilst we do not have direct knowledge of other charities our sense is that these are rare cases, nonetheless they are damaging to public confidence in the sector.

1.3. Public sector funding constraints mean that demands on charities to deliver services to the public look set to increase. Where charities step into roles previously occupied by the public sector this tends to mean increased control and accountability. However, this does beg the question of whether charities should be taking up the slack in this way. If so, are they equipped to do so and will they receive support? These are areas where it would be particularly helpful for the Select Committee to take a view.

1.4. We hope that the Government will consider ways to support charities in delivering their objectives effectively. In particular, it would be helpful if the Charities Commission could have an ‘enabling’ function, providing an accessible advice service to help charities manage and deal with problems before they develop into major issues. However, this may mean its role needs to be revisited and resourced accordingly.

1.5 We have highlighted a number of recommendations in the text but the key ones are:

1.5.1 Clarify the extent to which there is an expectation that charities will step into the gap left by funding reductions in the public sector, and increase the support made available, where appropriate.

1.5.2 Ensure future regulation is proportionate and relevant.

1.5.3 Introduce more Government funded support and training for would-be trustees and a drive to increase diversity of age, gender, background etc on trustee boards.

1.5.4 Make good governance structures more of a prerequisite before a charity is registered. Review the role of the Company Secretary as in many charities the onus is more on procedure and organisational matters than charity governance.
1.5.5 Remove bureaucracy and duplication in regulation, and consider a light approach for those charities that can demonstrate excellent governance, financial performance and outcomes.

1.5.6 Review charity legislation, perhaps with a view to consolidation, and include charity trading as part of that review.

1.5.7 Consolidate the role of the regulators. Make this more of an enabling function and create a culture in which the sector proactively seeks guidance and support/direction.

2. Role and purpose.

**Q1. What is the role and purpose of charities in civic society in England and Wales?**

2.1 A fundamental distinction between charities and other organisations is that generally they exist to provide some sort of benefit to the public, rather than for individual gain. Charities work to provide public benefit to support their beneficiaries and they are supported by a mixture of grants, donations, investments, legacies and other income.

2.2 Charities provide essential social support which Government would often not otherwise be able to afford or deliver. We feel that on current trends charities will play an increasing role in public life into the future and expectations on them will grow. This underlines the importance of ensuring the regulatory framework is sufficiently enabling and funding models are adequate.

2.3 It would be helpful to clarify the extent to which the Government expects charities to step into the gap left by funding reductions, and to increase the support available to them.

3. Pressures and opportunities.

**Q2. What are the main pressures faced by charities currently, and what impact have these had?**

3.1 The main pressure arises from the demand for resources required to deliver the charities objectives, which requires innovative ways of fundraising, coupled with increased regulation.

3.2 Occasionally charities do get it wrong but the few occasions when this happens need to be weighed against the general good they provide.

3.3 Strong governance on financial issues is very important, but this is made harder when charities are required to comply with complex and poorly-targeted legislation, eg the Lobbying Act.

3.4 Future regulation needs to be proportionate and relevant.
4. Innovation.

**Q 3. How do charities seek to innovate, particularly in the digital arena?**

4.1 Charities must constantly seek to innovate, but many do not have the resources or expertise to do so. **Support and resources to enable charities to ‘step up’ would be helpful.**

4.2 Competition for digitally skilled staff is high in the job marketplace. **We would welcome imaginative schemes to facilitate knowledge sharing with colleagues in the corporate sphere.**

5. Governance and leadership.

**Q5. What role should trustees play in the performance and effectiveness of a charity? How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**

5.1 Trustees have a crucial role to play, and a well governed board leads to effective strategic direction and decision making. It is hugely important for trustees to understand their role and responsibilities, both collectively and individually.

5.2 Boards often appear risk adverse, tending to see their role as stopping a charity doing something wrong. There needs to be more diversity on trustee boards, and increasingly commercial expertise, including networking and influencing skills, is crucial. Better training along with more developed support is needed.

5.3 The Woodland Trust carries out regular reviews against guidance on good governance but with more and more regulation trusteeship is becoming so onerous it may prove difficult to recruit new ones.

5.4 We appreciate there are no easy solutions to these issues, but would welcome more Government funded support and training, for example mentoring schemes and opportunities for would-be trustees to shadow board members.

5.5 A drive to increase diversity of age, gender, background etc would help create stronger boards.

5.6 The role of the Company Secretary could be reviewed as in many charities the onus is more on procedure and organisational matters than charity governance.

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6. Accountability

**Q6.** How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

6.1 There is probably a case for increased openness and transparency which will help to build public confidence back to previous levels. There are a number of governance structures in place but better governance in some charities should be encouraged.

6.2 At present the main means by which charities demonstrate their accountability is via an annual report. There is an argument that the larger charities, however this is defined, should be subject to peer audit, self-review and perhaps some more consistent internal audits. Many supporters may have little interest, but the fact that this would be happening and would be accessible, should provide confidence. At the moment outcomes from charities are not really measured consistently, if at all in some areas.

6.3 Overall, we propose the watchword for accountability should be ‘transparency without bureaucracy’. At the moment it feels as though there is rather too much of the latter. For example, regulations around tax breaks and gift aid are particularly burdensome, and the more rules there are the more the risk that charities will get it wrong. The tax system needs to support charities, rather than be administratively burdensome, and in circumstances where clearly an honest error has been made some leeway from the HMRC would be welcome.

6.4 The way in which accounting rules require capital expenditure to be reflected in the balance sheet is not helpful for landowning charities such as the Woodland Trust as it gives a misleading impression of the charitable spend, ie capital cost is not included in charitable spend. On the charity commission website the spending is £32.8m which excludes £2.9m spent on woodland and land. The Charity commission says £4.7m is retained for future use which is not true as £2.9m has been spent on woodland and land. The Charity Commission has indicated to us that the rule cannot be changed, but this is misleading to donors.

6.5 Good governance structures should be more of a prerequisite before a charity is registered.

6.6 Remove bureaucracy and duplication in regulation, and consider a light approach for those charities that can demonstrate excellent governance, financial performance and outcomes, eg a system of light touch or peer auditing between charities, rather than more regulation.

6.7 The way in which accounting rules require capital expenditure to be reflected in the balance sheet should be amended.

7. Resource management.

**Q7.** What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?
7.1 It is difficult to forecast this with any certainty. There are potentially variations in income and a lot of ‘unknowns’ in the post-EU referendum era which we will not see the impacts of for some time. **Incentives for giving to charities should be increased.**

7.3 **To help charity financing could the Government consider providing a better rate of return for the reserves held by charities?**

8. **The role of the Government.**

| Q9. What should the role of Government be with the sector? - What should be the role of the Charity Commission? |

8.1 This is the key question, but it will be necessary to be clear, first, about the future role of charities and the expectations upon them.

8.2 The Charities Commission seems to have become more of a watchdog than a friend. Until recent years it was possible to discuss issues informally with Charities Commission staff, and this informal help was invaluable. We recommend the Charities Commission should be resourced in such a way that it can provide advice to Charities, and act as a sounding board, before issues escalate into problems. The same applies to HMRC.

8.3 There may be some merit in reviewing charity legislation, perhaps with a view to consolidation, and to include charity trading as part of that review.

8.4 **Overall the role of the regulators should be consolidated and become enabling, creating a culture in which the sector proactively seeks guidance and support/direction.**

*12 September 2016*
Questions

The purpose of charities

1. What is the role and purpose of charities in civic society in England and Wales?

The role and purpose of charities is to address needs that the private sector and the state do not fulfill, enhancing civic society and providing services or a voice for likeminded people who share the same values or belief in a cause.

- How has this changed?
Experience may be different across the sector. In the case of animal welfare, the public sector has largely relied on charities to take the lead in enforcement of the Animal Welfare Act 2006 despite charities having no powers under this or any other law. More often than not, local authorities and police (who do have legal powers) refer all animal welfare problems to charities. Perhaps as a result, citizens have become more demanding of animal welfare charities. They expect us to act immediately, sometimes even unlawfully, to remove animals from owners without due process. Social media campaigns and groups have erupted to criticize charities who do not meet their expectations. In addition, more citizens expect charities have a duty to take in every animal in need when the charity may not have either 1) the legal right or 2) the capacity to take in and care for the animal to a sufficient standard. As responsible, reputable charities must maintain strong financial and welfare standards, taking in thousands of horses beyond our means would not be responsible. However, this can result in criticism and social media campaigns challenging whether charities are performing their role.

- What makes them distinct from other organisations doing similar work?

Where charities perform similar work to other organisations, their independence from government and commitment to uphold the values and charitable aims of their organisations can make them especially trusted and well informed.

- What role can charities play in community cohesion and civic action?

As charities are generally trusted and well-informed, with a base of supporters who are committed to their cause, charities can unite and enhance community cohesion and inspire constructive civic action. For instance, charities played a key role in channeling community frustrations at the problem of illegally grazed (fly-grazed) horses towards writing their MPs, which helped pave the way for the Control of Horses Act introduced in 2015.

- How does the sector benefit from volunteering?

The sector fundamentally relies on volunteers to help it undertake its work.
World Horse Welfare — Written evidence (CHA0127)

- How has the status of volunteers changed?

As staff are now increasingly protected in law, volunteers have comparable protections and many of the charities who rely on them use resources to manage them effectively. World Horse Welfare has a volunteers’ charter that sets out what they can expect from us, and what we expect from them.

- What challenges do charities face in trying to fulfil their role in civic society?

The challenges can range widely, however maintaining and prioritizing resources/funding is a constant effort, and forward planning beyond two years or more can be difficult given the uncertainty of revenue streams. Following the negative media coverage on charity fundraising, and the availability of mailing lists, the cost of recruiting new donors has increased. The introduction of the Fundraising Preference Service will affect acquisition of new supporters and how we communicate with existing supporters, which is likely to reduce income and affect the services we can deliver.

For animal welfare charities, in trying to fulfil our role we often struggle with more systematic problems stemming from a lack of regulation or enforcement. For example, equine identification legislation was never properly enforced and new, updated legislation has not yet been implemented (meaning ID cannot be enforced). Therefore, some owners breed horses indiscriminately and neglect them without any consequence as they cannot be held accountable. When charities intervene to resolve the resulting welfare problems, the horse owner simply breeds more horses, and the cycle continues. Horse welfare charities have capacity for around 2,500-3,000 horses nationally, with only a small percentage free at any one time, and cannot take in the estimated additional 3,000+ horses needing help in Britain.

- How can these challenges be overcome?

More effective laws, with effective enforcement of ID and animal welfare law by authorities would make a real difference, particularly with problem breeders.

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?

Charities are enduring a number of intense pressures, particularly donor attrition and the costs of acquiring new donors which have risen in recent years. The Fundraising Preference Service and a potential requirement for ‘opt-in only’ contact, could significantly exacerbate these pressures. Negative media stories about a handful of charities have led to generalised criticism of all charities, led not only by the media but also government and even leaders in the sector. In our view this misrepresented the vast majority of charities, and effectively tarred every charity with the same brush – needlessly damaging trust across the whole sector. Most charities are well-run and have good relationships with their supporters, but
there is no doubt that fundraising has been affected since the media storm and will suffer for the foreseeable future.

- What opportunities do charities have in the current environment?

Charities do have an opportunity in the current environment to focus on and strengthen their good relationships with their existing supporters, and use those relationships to acquire new ones. Making trust and respect for its supporters a key part of a charity’s brand is likely to become a positive trend, however this should not detract from the charity fulfilling its charitable aims.

- Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?

There will certainly be different pressures affecting different types of charity – for instance those reliant on government funding may struggle when that funding is cut. Grant funding can sometimes seek to focus on a bespoke project just for the funding organization, which may not align with the charity’s strategic priorities. Charities like World Horse Welfare which are almost 100% reliant on voluntary fundraising income will face pressures posed by increased donor attrition, higher costs to recruit and retain donors and new regulations which will make it more difficult for charities to engage supporters. Downturns in donations during periods of economic uncertainty are another pressure. Animal Welfare charities in particular do struggle with the numbers of animals needing help, and the public expectation that a charity can help every one of them. Systematic lack of enforcement or regulation by authorities ensures that more animals are bred, often indiscriminately, and the authorities look to charities to take in those that are unwanted or abandoned. Authorities also expect charities to take a driving role in enforcement of the Animal Welfare Act, where we have no powers.

Innovation

3. How do charities seek to innovate, particularly in the digital arena?

A good number of charities, including World Horse Welfare, are innovating though greater use of database systems and communications technology. Charities’ need to tightly manage their resources makes digital communications and engagement attractive as a cost-effective way of reaching supporters and attracting new ones, and undertaking campaigns. However, a supporter recruited through digital channels is likely to be quite different to a supporter recruited through a mailing, who are generally very engaged. We don’t know yet how loyal a supporter recruited through digital channels will be to the charity.

There are plenty of businesses dedicated to helping charities harness digital technology.

- What more could be done to promote innovation, and by whom?
Like businesses, charities themselves will often seek to innovate of their own accord, especially when confronted with new challenges, new opportunities, or an increasingly competitive marketplace. So pressure to innovate comes from within, as well as from outside. The charity’s supporters and volunteers can also be a source of new ideas and innovation.

- **What barriers are there to being innovative?**

Limited resources, both in financial and human resource terms, are the primary barrier to innovation in charities. Investing time in developing innovation can be challenging when staff need to devote all their resource into fulfilling the charity’s aims. With pressure on funding, making investments in a new idea which may not work can be a difficult choice to make. This may lead some charities to be risk-averse.

**Governance and leadership**

4. **What skills are required to lead and manage a charity?**

The skills needed to lead and manage a charity are no different to those required to lead and manage private and public sector organisations. Medium to large charities are especially in need of skilled individuals who can operate at a high level with government, business, communities, academia and science, and other non-profit organisations – and may need specialist knowledge in their area (e.g. human or animal health).

- **How can these skills be gained?**

Through previous career experience, education and training. There is a wealth of training available for managers and trustees.

- **What support exists to develop these skills within the charitable sector?**

There is a great deal of training available, and many networks, events, workshops and seminars that bring members of the charitable and sometimes other sectors together to learn from each other and share best practice.

5. **What role should trustees play in the performance and effectiveness of a charity**

The role of trustees is clear in legislation. They should provide good governance and can help guide strategic direction, and challenge ways of working. This is no different to private sector boards.

- **How can trustees be best equipped, enabled and supported to fulfil their responsibilities?**

Charities should first ensure they recruit trustees with the appropriate skillset to perform the duties required of them. A balance of skills across a charity’s board can ensure, for
instance, that trustees have competent oversight of finance, accounting, communications, marketing/fundraising and specialist skills relevant to that charity. There is also plenty of training available for trustees, and many will already have significant experience of management and leadership gained through their careers.

- What, if any, changes might this mean for current arrangements?

We do not believe there is a need to change arrangements nor is there a need for more legislation. Most charities are well-governed, there is plenty of support available for trustees to fulfil their duties, and the Charity Commission can take a more proactive role in imposing consequences for bad practice.

**Accountability**

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?

Clear, open communication with supporters, beneficiaries and the public is vital to convey what a charity does, how donations are invested and the benefits of its work. Reporting standards including making the charity’s accounts publicly available already exist, but the charities that will grow will likely be those who can demonstrate that the trust people invest in them is earned and never abused.

- What, if any, changes might this mean for current arrangements?

We do not believe that more legislation is required or any change to current arrangements. Enforcement of existing legislation is more likely to benefit the sector and the public.

- How should charities assess their long term viability and/or sustainability?

Some charities may be established to fulfil a short-term need, which would not require sustainability. Those that do aim to be sustainable must use the same tools and private and public sector organisations to plan expenditure through working to a set budget, regular reporting and reforecasting, cash flow projections and trend analysis to ensure the charity works within its means and can deliver its objectives.

There is, in some instances, scope for merger or collaboration between charities, but the scope for saving money- which in practice can be limited- as opposed to wider strategic development, should not be overemphasized.

**Resource management**

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

The media storm around charity fundraising practices has reduced appeal donations and so income to carry out our work. Across the sector, according to the Government’s Community Life Survey, published in Third Sector in July, volunteering and charitable giving
levels remained flat for 2015/16, when many charities would have put in plans to grow services to help more beneficiaries.

Financial sustainability for all charities will be tested in the coming years as some traditional fundraising methods are becoming less popular, while newer types of online fundraising do not yet deliver significant income. The cost of acquiring and retaining donors appears to be increasing and charities will need to invest more in securing loyalty among their existing supporters.

The Fundraising Preference Service and the drive for ‘opt-in only’ contact with supporters could further increase the challenge of acquiring and retaining donors and is a risk to the sector.

Laws regulating charities and fundraising already exist – we do not need new ones if the existing ones are enforced.

For example, we do not see the case for an FPS as supporters can and do already request no further contact from a charity and the Telephone Preference Service, if properly enforced, could fulfil that role.

- How can these challenges be overcome?

Great care should be taken to fully consider the impact on charities of the Fundraising Preference Service and ‘opt-in only’ communications.

While online media and fundraising still have great potential to offer supporters a more personalized and engaging way to relate to the charities they support, this growth is somewhat stymied by the fact that VAT applies to digital communications when it does not apply to printed materials – meaning less can be invested in them. This anomaly should be addressed.

- How can best practice and information be shared across the sector?

Best practice is already widely shared across the sector through training, events, networks and media.

- What lessons can be learnt from past mergers or dissolutions of charities?

Surely there will be many lessons from these events as there are in the private sector when businesses or mergers fail. The key is to have strong policies and governance, and know what the charity seeks to achieve and has an effective approach to achieving it.

- How can charities effectively deliver services and be assured that their work achieves successful outcomes?

The management of the charity is key here, as objectives must be set and progress monitored regularly. World Horse Welfare has monitoring and evaluation programmes in
place for its international work, and can readily see the benefits of our work in the UK which is also easy to measure through KPIs.

- What are the benefits and challenges of funding for charities being derived from commercial contracts?

There should be equity in government funding contracts between the corporate and third sector. Charities should not have to jump through extra hoops to be considered. For example if a contract is to be awarded on the basis of price and quality of delivery offered then there should be no justification for a procurer to challenge the make up of the price, for instance querying non-direct costs.

Social investment

8. What is the potential of social investment and social impact bonds?

NA

- What are barriers to fulfilling their potential?

NA

The role of the Government

9. What should the role of Government be with the sector?

Government can ensure an equal playing field for charities and ensure sensible regulation of the sector, which includes the Charity Commission taking a tough line against charities that do not follow the rules and so damage the sector’s reputation.

As charities seek to fulfill a need, Government could work with charities to consider the reason for that need and ‘do what only government can do’ such as enforce laws, and ensure effective legislation is in place.

Sound legislation is already in place to regulate charities and to protect animal welfare – the problem is that these laws have not been fully enforced. Therefore our view is that no changes to the law are needed but the Government can and should do more to enforce it.

- What should be the role of local Government?

Local Government, as part of government, can enforce the laws they have the power to enforce, and take advantage of the support, advice and services charities have to offer them. They can commission services from charities or use their expertise to help design local policy.

- What should be the role of the Charity Commission?
The Charity Commission should be a respected regulator ‘with teeth’ to take a tough line on bad practice, and so uphold the integrity of the sector to the public. True regulation, which imposes consequences on charities that behave badly, must be put in place. This will help stamp out unscrupulous behavior and enhance trust in the vast majority of charities in the sector who already play by the rules.

- Have these relationships changed? If so, how?

NA

- How should Government (national or local) focus its resource to deliver its civil society agenda?

Enforcement of the law would help to create an environment where people feel safe and assured that their communities are valued and protected. Government should not dissuade charities from campaigning on issues related to their charitable objectives as this is a fundamental aspect of civil society.

- What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?

NA

- What are the opportunities and challenges associated with local devolution

NA

Lessons from other sectors and countries

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

NA

5 September 2016
World Vision is the world's largest international children's charity. We are a child focused Christian relief, development and advocacy organisation dedicated to working with children, their families and communities to overcome poverty and injustice. We work in almost 100 countries to improve the lives of 100 million people worldwide.

We welcome this opportunity to provide evidence to the Lord’s Select Committee on Charities. While we have broad experience of issues around charity sustainability, in this submission we will focus specifically on recent evidence about the role of accountability to beneficiaries, and highlight some lessons that the UK sector may find valuable from the wider international development sector. As such this Submission specifically relates to the Inquiry question:

‘How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?’

Evidence

1. As an international non-government organisation (INGO) sector there are strong requirements and well accepted principles in place to ensure accountability and reporting to donors. For example, World Vision UK (WVUK) reports annually to donors and the general public on its cumulative impact, specifically with a lens of breadth, depth and sustainability. This reporting strives for transparency around both success and failure, as well as on reliability of data using the BOND principles for evidence quality. At an individual programme level, INGOs are bound by contractual and legislated fiducial requirements that compel accountability to those who provide funding for projects and activities.

2. However, beneficiaries do not have the same contractual and legislated means to ensure that charities are accountable to them for how the resources we are entrusted with are used on their behalf. Nor do they have the means for recourse (such as withdrawal of funds, or expressing discontent at the ballot box) if we do not act in their best interest. WVUK, along with other peer International NGOs, has taken initiatives to redress this gap in accountability.

WVUK welcomes the intent of the Committee to bring the sector together so that it can thrive. Charities with international programmes and those with domestic programmes face similar expectations to uphold accountability to beneficiaries and communities impacted by their operations. WVUK recommends the establishment of dedicated platforms to facilitate an exchange of practices and approaches between domestic and internationally focussed charities. We have observed that this only takes place on an ad

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575 See - http://www.worldvision.org.uk/our-work/impact/ for World Vision UK’s Impact Report which summarises the impact of all World Vision UK-funded projects in 2015, and Technical Report which details the impact and also some of the methodological challenges
576 BOND is the membership body for organisations in the UK working in international development. The BOND principles for evidence quality have been welcomed as providing an industry standard and can be downloaded from the following website: www.bond.org.uk/effectiveness/monitoringand-
hoc basis, creating a lost opportunity for cumulative learning in the charity sector.

**Accountability to Beneficiaries – Lessons from a multi country pilot**

3. Feedback mechanisms provide a way to strengthen accountability to beneficiaries. ‘Feedback’ is used to refer to any questions, suggestions, complaints or concerns community members may have about an organisation and its activities. The ‘mechanism’ is concerned with recourse and having systems in place to take corrective action in response to feedback. It is therefore a way for beneficiaries and communities to ‘hold an organisation to account’\(^{577}\). The feedback mechanism must be underpinned by transparency so that beneficiaries know the commitments, standards and expectations to which the organisation can be held to account to.

4. Between 2014 and 2016, the UK Department for International Development (DFID) supported seven non-governmental organisations to pilot Beneficiary Feedback Mechanisms (BFMs) as part of their maternal and child health projects. WVUK led a consortium along with INTRAC, SIMLab, and CDA Collaborative to support their journey and learn:

- What makes a beneficiary feedback system effective?
- Does it improve accountability to communities and the delivery of projects?
- Is it worth the investment?

5. The pilot generated lessons relevant to those resourcing, designing and implementing beneficiary feedback in development programmes\(^{578}\). Key findings reflected in the [Summary Report\(^{579}\)](http://feedbackmechanisms.org/public/files/BFM-key-findings-summary.pdf) and detailed [Synthesis Report\(^{580}\)](http://feedbackmechanisms.org/public/files/BFM%20End-point%20Synthesis%20%20full%20report.pdf), include -

- Establishing feedback mechanisms requires flexibility in the initial design phase, a thorough context analysis, and willingness to adapt mechanisms during implementation;
- Continual sensitisation of target beneficiaries to the purpose and process of giving feedback is essential to build confidence and overcome concerns about giving feedback;
- Face-to-face mechanisms were preferred in contexts with lower literacy and high poverty. Technology-enabled mechanisms and suggestion boxes were not accessible to some segments of the population and required adaptation to minimise barriers;
- The provision of multiple options for how people provide feedback aided inclusion of different groups, and catered for different types of feedback (for example those providing sensitive feedback often preferred confidential options);

\(^{577}\) A functional feedback mechanism is defined by CDA Collaborative Learning Projects as being a context-appropriate mechanism which a) solicits and listens to, collates and analyses feedback b) triggers a response/action at the required level in the organization and/or refers feedback to other relevant stakeholders c) communicates the response/action taken where relevant back to the original feedback provider and if appropriate, the wider beneficiary community. In this definition a), b) and c) must all be present/true. A feedback mechanism is not fully functional and effective if just one of them is present/true.

\(^{578}\) Outputs from the pilots can be found at [http://feedbackmechanisms.org/](http://feedbackmechanisms.org/) including films, case studies, recommendations, Practices Notes, a summary of key findings and full end point review report.

\(^{579}\) [http://feedbackmechanisms.org/public/files/BFM-key-findings-summary.pdf](http://feedbackmechanisms.org/public/files/BFM-key-findings-summary.pdf)

6. Complex organisational and community realities mean that many challenges can arise in operationalising a commitment to accountability to beneficiaries. This means that dedicated resources are required. This has been shown both in the pilot projects noted above, and also WVUK’s own Accountability Learning Initiatives in DFID Programme Partnership Arrangement funded projects in Nepal, Somaliland, Ethiopia and Pakistan. These challenges and approaches for overcoming them are outlined in detail in these Practice Notes.

7. A supportive donor environment has been conducive to progress, and demonstrates that there is significant mutual ground between accountability to donors and accountability to communities. This is particularly as listening and responding to feedback contributes to adaptive management and can improve project performance. Further, WVUK has benefited greatly from peer exchange and dedicated industry efforts to mobilise for strengthened beneficiary accountability, for example through the Humanitarian Accountability Partnership (now Core Humanitarian Standard), BOND Learning Group on Beneficiary Feedback, DEC Accountability Framework and Feedback Labs UK.

8. This peer exchange to date has largely been between charities with an international focus. WVUK sees value in expanding this exchange within the broader UK Charity sector. Through collective learning and commitment, greater traction will be made in strengthening accountability to beneficiaries (or service recipients). There is a growing body of evidence from international charities, that supportive platforms and coordination could promote two-way learning between UK based charities.

2 September 2016

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581 CDA Collaborative has provided technical support and documentation of these Initiatives. Detailed cases studies will be available at the end of September and can be found on - www.worldvision.org.uk/our-work/accountability/


583 Themes in this area are discuss in Bond’s publication on “Adaptive Management: What it Means for CSOs”, which is due for release on 14 September 2016
Young Barnet Foundation — Written evidence (CHA0101)

The Purpose of Charities – Call for Evidence answered from the micro, small and medium charity prospective

Background to the Young Barnet Foundation

This submission is by the Young Barnet Foundation. We are a relatively new organisation, part of the Young People’s Foundation (YPF) model. This model is the response of John Lyon’s Charity (Website) to the current pressures on the Children and Young People sector and specifically the issues faced by the voluntary sector in outer London. Over the past few years, the Charity has become increasingly concerned about the lack of high quality youth provision in these outer boroughs and via the Young People’s Foundations seek to ensure that what remains, is a viable and vibrant youth sector that is sustainable in the future. Young People’s Foundations (YPFs) have been developed to combat the effects of widespread cuts in funding in the Children and Young People’s sector. Their goal is to ensure that the organisations and groups that serve children and young people are strong, sustainable and fit for purpose.

Currently there are a number of Young People’s Foundations being set up, vehicles for change, vehicles to unite and to help re-build a strong youth sector. Together with our funders, our partners, our members, and our local community, we can help to turn the tide of the decline and stimulate growth both in activities and services. We will help to drive new initiatives, promote partnership and consortium working, whilst growing local giving, enabling members to do what they do best. We are all aware of the growing demand / needs of our children and young people, and equally aware of the limited funding available to address those needs, so the challenge is high.

We recognise that a lot of the Voluntary & Community Sector (VCS) are made up of small organisations, they need support to help them become more sustainable and to grow. They also need a platform to showcase their achievements in order to enlist local support both in terms of volunteers and funds.

We plan to help grow that provision so that we can help meet the increasing and complex demands of our growing Children and Young People’s (CYP) population. We are here to add value to the current support services, we will work closely with existing organisations to complement their services. Through a partnership approach, the CYP sector will benefit from strong fundraising and capacity building support.

Our remit is based on 4 core objectives,

1) Growing local giving to provide a CYP Grants Pot for VCS within the borough to enable more activities and services to be run.

2) Providing a venue platform to ensure that delivery space is available for outreach/service delivery and organisations with space make better use of it to help with their sustainability.
3) Developing a Consortium as a vehicle to bid for larger funds/contracts to enable smaller organisations to be part of this important delivery ensuring reach and inclusivity.

4) Impact monitoring – supporting the sector to tell their story, backed up by data.

To read our full list of aims please visit our (temporary) website www.youngbarnetfoundation.org.uk

Please note – Our answers have been aligned to the Call for Evidence original questions.

Questions

The Purpose of Charities
(answered from the micro, small and medium charity prospective)

1. What is the role and purpose of charities in civic society in England and Wales? – By law, a charity’s stated objects (aims), must fall within the list of ‘charitable purposes. An organisation is a charity if it is established for exclusively charitable purposes. A charity must also demonstrate that it exists for the public benefit as well as for a charitable purpose. Nothing has changed over the years, save for the fact the statutory bodies have seen in the VCS as a ‘cheaper’ vehicle to deliver community benefit, vehicle to reach the hardest to engage groups as a vehicle to draw down additional external funds to meet the overall objectives.

However, the parties still struggle to understand each other, expectations and drivers are often out of kilter causing conflict and misunderstanding. The VCS if seen as a cheap workforce, (and in many ways it is) often attracts underinvestment and unrealistically tough targets which has stretched and weakened the sector and failed to empower and strengthen it.

a. How has this changed? – Charities are now delivering more services, filling gaps traditionally provided by the statutory sector. More is being asked of the sector as it is seen as a cheaper delivery vehicle.

b. What makes them distinct from other organisations doing similar work? Charities are formed for community benefit, often by a group of people that felt there was an overwhelming need that had to be addressed. So they are not driven by profits that can be drawn down to benefit individuals but driven by surpluses so they can achieve their objectives in greater numbers.

c. What role can charities play in community cohesion and civic action? – Charities have a vital role to play in community cohesion and civic action as they are often formed to address inequality, emerging or unmet need. Often this is accompanied with a drive, passion and local buy in to solve local issues. Local people, local footprint, local commitment, local interest, local impact!

d. How does the sector benefit from volunteering? Volunteering varies from charity to charity, from the micro charities run entirely by volunteers, to the small charities run by a volunteer board of trustees but with a mixture of paid staff and volunteers delivering
against the mission. In the main, volunteering has changed from more dedicated roles covering longer hours to more of a bite-size micro volunteering model. This does not support contract delivery but does give added value to services offered by the charity. Charities need expertise to support them and this can be achieved through bite-size volunteering/business partnership.

e. **How has the status of volunteers changed?** As charities are asked to take on service delivery – moving away from a supportive role to being the only support service - volunteers are being expected to take on actual roles, which they are resisting as they do not feel that they should be replacing paid roles but should be supporting the paid staff. Volunteers are happy to be the extra value not the ‘go to person’ for the service delivery. Often the Statutory sector sees the use of volunteers as a ‘free’ workforce thus driving down contract values as volunteers are expected to delivery services. Volunteers are being enlisted to support public services in larger numbers – NHS, LA etc – there is a huge push for recruitment during volunteer’s week from these agencies.

f. **What challenges do charities face in trying to fulfil their role in civic society?** There are a number of challenges for example:

- Commissioning and securing contracts have not affected the sector equally – smaller charities are suffering as they are finding it difficult to adjust to the change in local funding arrangements.
- The shift from grants to ‘commissioned services’ have eroded much of charities ability to react to emerging needs or even access funding in the first place.
- Public services have an outdated view of charities, we are told that we need to be more resilient and sustainable and address the ills in our society that were once addressed by public services – with little local grant funding to support this aim. The statutory sector has not been able to support the needs of the most vulnerable within our society on a sustainable basis – so why is the VCS expected to do so? VCS are being asked to become sustainable and resilient but there is no investment into making this ‘real’ – how will this ‘just’ happen?
- If a SME is running at 30-40% overheads this is seen as acceptable but charities are supposed to be fit for purpose, overheads of 5-10% is somehow seen as too much.
- The growth in public sector money into the VCS did promote growth but did not produce a stronger sector as the reality was that Public Service contracts tended to just address the project costs, with no surpluses, there was little or no investment in development, sustainability or indeed little money to put towards core costs. Research has suggested that public service contracts where run on a breakeven or at a loss for charities as LA did not adopt a full cost recovery model to support charities. Because of this, the sector, whilst facing more cuts, are not on a sound footing, many have weak foundations.
- We need to recognise that charities cannot replace the public sector (PS) income they previously received to deliver services, so we are left with a reduction in funding, a reduction in delivery and a growing demand.
- It is difficult for smaller charities to diversify.
- Some charities have been totally reliant on PS money in the form of grants, having designed their service delivery around the expectations of the LA.
- Local authorities (LA) have moved away from the ‘compact years’ with full engagement to a less constructive relationship.
LA’s have the desire that charities need to step up, grow their delivery to cover the PS shrinking services on offer, but this comes on the back of years of chronic under investment in capacity building / development. At the same time local infrastructure support has nigh on disappeared.

The sector voice needs to be heard and issues need to be resolved – often voices are silenced because of the inequality of the relationship, charities can be reliant on the LA for funding to continue to support beneficiaries, so are keen to please. Sector representatives are often funded by the LA, again a difficult situation to act on as the voice of the sector especially if ‘we shoot the messenger’.

Trust and foundations were used as the icing on the cake now they are the cake.

In all this we have to remember the size of the majority of charities – the vast majority are SMALL but most are vital to the communities they serve.

g. How can these challenges be overcome?
- We need to ensure that commissioned services operate on a ‘full cost recovery basis’.
- Contracts need to be fair and balanced (often the expectation is that charities will pick up whatever is thrown at them because they have a contract with the LA).
- Grant funding should be reviewed so that we do not starve small charities, kill innovation and stretch charities too far as many are at breaking point.
- There needs to be a greater understanding of core costs.
- There needs to be a greater understanding (and investment) of local infrastructure support. This is never seen as sexy but is a necessity given the makeup of the charitable sector, ie. The majority of organisations are ‘small’ and they need local expertise / support to achieve objectives and to ensure that they are fit for purpose.
- New Model – set up to support local CYP Charities  http://jlc.london/jlc-extra/capacity-building/young-peoples-foundations/  http://www.youngbarnetfoundation.org.uk/#!ypf-model/n0hyi

Pressures and opportunities

2. What are the main pressures faced by charities currently, and what impact have these had?
- Reduced resources.
- Governance and governance support (lack of local infrastructure support, training).
- No capacity or resources for Impact monitoring.
- Silo reporting – reporting on each individual grant no mapping of entire service or its impact. So LA fail to understand the reach of the sector or the impact it is having within the community.
- Increase demand for services against the backdrop of Public Sector service cuts.
- We need to remember the charities are in fact SME but run on missions and values and ‘not for profit’. That does not mean that we should not generate a surplus, surpluses are needed to ensure development and sustainability.
- Often PS contracts are rigid, not co-designed and may not fit with the mission of the charities or the needs of their beneficiaries. Causing ‘Mission Drift’.
• Recognition that small charities cannot be everything to every department in the LA just because they have one contract and often do not have the capacity to attend every meeting requested of them. This is often held against Charities as they are accused of not supporting strategic participation.

a. What opportunities do charities have in the current environment?

• Charities, given the right support, can look to take stock and try to diversify their income.
• An opportunity, again with the right support, to combine efforts, work together to grow impact.
• Opportunities to look to do things differently – how do we offer meaningful support to charities on a local basis – what do we need to do locally to fund this?
• Some London Funders are supporting Young Peoples Foundations, such as ours – we have a platform to bring partners together to help do things differently. There are a number being set up.

Diversifying income – commercial opportunities/Unrestricted income (more for the medium sized charities)

There are a number of ways that charities can ‘up’ their unrestricted income but it must be recognised that these opportunities are not for every charity and may not be suitable for their objects, mission and ultimately their client group. It also depends on ‘capacity’.

Fees for service. Payments from recipients receiving goods and services directly from the organisations. (not always suitable/possible for beneficiaries but could sell services to a third party – LA, School etc.). Again not suitable for all charities.

Contracts to supply services – Tenders. Payments from government or other third parties for goods and services supplied. Again not suitable for all types of charities. (Must be on a Full Cost Recovery basis)

Sales of products not directly associated with charitable activity. Payments for products which are additional to the charity’s core mission. For example, the sale of Christmas cards.

For-profit subsidiaries. Profits derived from the activities of commercial organisations owned by the parent charity, eg. charity shop.

Local Business offers support to a local charity. This is a great opportunity but also a minefield for smaller charities. Eg. when local business offers a service FOC and then the charity offers to publicly thank them via a website for example – VAT could apply – does a small charity have access to financial advice? More often no! Could they afford the VAT applicable if it was deemed to apply? Often no? So one practical solution would be to offer more practical advice so that charities can call on local businesses to support them more. Often for larger charities.

Fee for endorsing products (advertising revenues) This relates to a trend in the US for non-profits to develop commercial relationships with for-profit companies and receive funds for endorsing products.

Changes in VAT for smaller charities??

b. Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?
• Charities delivering Public Sector Service contracts. - Often public service contracts
do not have any head room to generate any surplus to contribute to core costs.
• Public service contracts – unrealistic expectation regarding volunteer support –
volunteers add value – they do not take over the complete delivery.
• Charities too small to tender for larger contracts – no area grants available – lack of
infrastructure support to facilitate consortium bids.
• Smaller charities find in more difficult to diversify their services or their income.
• Charities offering outreach services / diversionary activities / service for children
and young people are finding it hard to locate venues to deliver services as they are
being outpriced in schools and other public buildings as these buildings become
more revenue generating assets. LA are shutting down/selling off community
buildings.

Innovation

3. How do charities seek to innovate, particularly in the digital arena? – Given that the
majority of charities are small and poorly resourced, they often fall behind on this. With
little unrestricted income, little head room in contracts, it does not produce the optimum
environment to grow this area.

The larger, better resourced charities use the digital arena. More needs to be done to
support the digital revolution for small charities. Again the YPF’s will seek to raise local
income for children and young people’s charities initialising social media.

a. What more could be done to promote innovation, and by whom? –
• Grant funding should be reviewed – we need the smaller local charities to continue
to impact local issues/lives.
• We need to get back to basics – why are charities there? What can they give? What
impact can they have? How do we ensure that they are supported to do what they
do? How do we help them evidence their impact?
• Government and LA should look at charities as assets and seek to take an active role
in their development.
• Support in unlocking greater development opportunities for each ‘local’ sector.

b. What barriers are there to being innovative?
• Resources.
• Lack of ‘local’ infrastructure support.
• Capacity.
• Lack of understanding by the LA about charities capacity and resources, charities are
expected to have the same back office support as the LA, but without any
investment.
• We need to look at win/win opportunities – LA - how do we achieve what we need
to achieve whilst we ensure that it is a win/win for both the VCS and the LA – instead
of imposing changes that cannot be met on a long-term basis
• If charities are continually under resourced they will be unable to develop, invest in
future planning /infrastructure of the organisation, innovate, raise additional income
– if they are continually stretched breaking point will not be too far off.
• Recognition that the VCS not having money is totally different from the LA stating that they have no money. The LA still have a desk to work from, bills paid, HR & IT support and a host of other things that the VCS cannot take for granted.

Governance and leadership

4. What skills are required to lead and manage a charity?

Trustees: The board of trustees should have vision, drive and enthusiasm to ensure that the charity has the most impact it can possibly have. The board of trustees should bring a skill base to support the charity for growth. They should also be able to commit the time needed to support the charity, it’s so important for small charities (larger charities boards are less likely to be called upon for day to day support).

Leadership: we need to constantly be thinking outside the box, be flexible and adaptable and most of all hold the beneficiaries’ interests as our driver.

We need to remember that often sector staff have chosen to work within the sector as it is driven on mission and values and not necessarily pay. However, we need to recognise the professional capabilities within the sector and not dismiss that when it comes to contracts/commissioning.

It is worth remembering that the leader of an organisation may well be covering three or four different roles, including delivering services. Leaders need to be multi-skilled and adaptable.

a. How can these skills be gained?
   • Recognition that smaller charities need support to achieve/grow these skills.
   • More investment in local infrastructure support.
   • Better sign posting to existing local, regional and national resources (with a recognition that not all charities can afford the membership fees).

b. What support exists to develop these skills within the charitable sector?
   • National bodies exist (but often the micro/smaller charities cannot afford the membership fees).
   • Local infrastructure (however this has been cut drastically – eg £30k to support the whole sector in a London borough, to support general fundraising, grant applications, governance, financial management and training!!) How?

Better sign posting to existing local, regional and national resources.

5. What role should trustees play in the performance and effectiveness of a charity?

For the smaller charities, trustees must be prepared to take on a degree of day to day support, using their skills to help the charity develop. IT, HR, PR, Marketing, Sales, Business Development, boards need to possess the skills needed to support the charity and its development. The paid and unpaid workforces in smaller charities need support to meet the operational needs of the charity. Clarity of roles are needed and a commitment to help delivery against objectives.

a. How can trustees be best equipped, enabled and supported to fulfil their responsibilities? More training, practical workshops – investment in local infrastructure support. Better understanding by local and national government of what is needed to
support the ‘local’ VCS (micro, small and medium charities) so that the sector can deliver support to local people and can continue to reduce the burden on the public sector purse – empowering and supporting the VCS is the only way to help towards sustainability – which ties into local devolution etc.

b. **What, if any, changes might this mean for current arrangements?** There is less and less local support out there for the VCS, traditional CVS is being diminished by Public Sector cuts - more is needed. Investment in local training and local support.

**Accountability**

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public? –

Absolutely charities should be accountable but we also need to ensure that our expectations are reasonable for the size and resources available to the charity. This needs to be proportional to the size of the charity, more training and support is needed to help charities ‘tell’ their story – doing ‘good’ is no longer good enough. Statistics, data and case studies are required to provide the evidence but do the micro charities have the capacity or funding to meet this requirement?

a. **What, if any, changes might this mean for current arrangements?** We need to support charities to measure their impact again this must be proportional. More local training, investment in impact monitoring, use of apps/online programmes (but these must be affordable).

b. **How should charities assess their long term viability and/or sustainability?** Again we need to look at the majority of charities, they are not the national, highly branded charities but are very small, locally based, often poorly resourced charities. However, the resources needed are very much dependent on their objects and the needs of their beneficiaries and how many services the charity is committed to delivering and whether the LA is also reliant on the charity continuing to deliver those services (often unfunded by the LA). With the lack of local grant opportunities, I feel that we will see a number of charities closing but we also may see a gap in service provision/ community support. Often smaller charities are driven by a desire to make a difference so giving up on that is hard especially if the needs still exist. So charities strive to exist and often take on contracts that do not meet the full costs of the service, forcing them to deliver at a loss and ultimately reducing their capacity to address viability and long term sustainability is a pipe dream. Using any reserves for delivery and failing to invest in the future, training or repairs.

Charities resource needs vary depending on services provided, hence a number of unregistered charities under the £5k threshold.

If local infrastructure was properly resourced, local infrastructure bodies would be the perfect agencies to check/ pass the charity applications – is this charity needed? Are there others doing this well locally? Can forces be joined? Is there a gap? Can local charities be utilised to channel this desire to set up a charity into something meaningful
for the applicants and the existing charity? Do the applicants possess the skills / support to run this charity?

LA’s / health agencies are looking at residents to come together to deliver services – but where is the ongoing support for such groups? More charities? Less infrastructure? More headaches? Forming new groups is not the answer especially when we cannot support/sustain the existing ones. If public services cannot be maintained due to lack of funding – getting community groups/charities to deliver them without the proper support CANNOT be the answer!

c. **Resource management.** Resource management is the efficient and effective deployment and allocation of an organisation's resources when and where they are needed. Such resources may include financial resources, inventory, human skills, production resources, or information technology. Charities are resourceful! A large proportion of the sector do well managing their limited resources, and can add value to the organisational delivery by attracting volunteers. However, it is a misnomer that charities can share back office costs – each charity is an independent organisation, delivering against its objects and missions. In effect each charity is a not for profit SME. How many small traders would be in a position to share back offices expenses? There may be economies of scale and local infrastructure support to highlight offers / discount to charities.

**For a small to medium size organisation, (this does not include project delivery costs), Overhead costs ...**

- Leadership (Chief Officer)
- Governance – Audit Fees, Legal Fees, Professional Fees, Trustee Expenses
- Strategic Development Costs – Consultancy Meetings, Local Government Participation, Special Trustee Meetings – cost of holding meetings
- HR support (administering, payroll, pension advice, recruitment etc.)
- Finance (accounting, budgeting, invoicing, purchasing etc)
- IT equipment & office equipment support (purchasing and maintaining computers, email, websites etc.)
- Facilities/Offices (purchasing and maintaining premises, leasing premises, office materials and equipment such as copiers, landlines) Consumables - these are not limited to stationary but also include cleaning products, tea, coffee etc
- General Fundraising Costs – Cost associated with raising unrestricted income – fundraising events, direct appeals, marketing etc
- Support staff training and communications
- Office rental / service charge (lack of community buildings, often private rentals, driving up costs)
- Reference, **membership** and subscriptions
- Insurances
- Other admin tasks (such as answering telephones, managing library resources, data processing etc.)
Volunteers may take up some of the staffing costs but the level of support needed will vary and often be dependent on the reporting expectations of the contracts held.

**Doing more with less** is not an option when most charities (micro, small and medium) are starting with a base line of being under resourced – this is a million miles away from a previously well-resourced organisation having to reallocate budgets to align with funding priorities/ albeit this may include making cuts as with the public sector.

7. What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?

Typically, charities need a mixed economy of income – unrestricted income in the most prized as this can address the unmet costs of the organisations, pay bills, repairs, insurances and indeed deliver additional unfunded services needed for beneficiaries etc. This income is mainly derived from local donations, fundraising and commercial activities, three things that the smaller charities find challenging to master due to the capacity of the organisation.

There are many costs that need to be met even by the smallest charities, in terms of support costs, SME and charities are not too unalike. Local grant funding was a great source of income to smaller charities to address these costs.

It’s worth remembering that not all charities are registered. In fact, lots aren’t. Charities in England and Wales only have to register if they have an income over £5,000, although elsewhere all charities, of any size, have to register.

a. **How can these challenges be overcome?** As a local partnership - we need to look at doing things differently and that doesn’t mean saying there is no money so the charitable sector needs to step up, deliver services to our most vulnerable residents and at the same time become more resilient and sustainable.

   We need to look at ways to support the local VCS and attract money into the sector. This needs to be achieved on a local level – it is not one size fits all.

b. **How can best practice and information be shared across the sector?** These challenges are being faced across the nation so it would be good to pilot/test a range of initiatives that could support the VCS on a local basis. Remembering that infrastructure is not always sexy but it is necessary to support smaller charities.

c. **What lessons can be learnt from past mergers or dissolutions of charities?** Not answered

d. **How can charities effectively deliver services and be assured that their work achieves successful outcomes?** Support to keep up with the digital revolution – monitoring and evaluation – impact monitoring – creating a WIN/WIN

e. **What are the benefits and challenges of funding for charities being derived from commercial contracts?** See above.

Social investment

8. What is the potential of social investment and social impact bonds? Research suggests that smaller charities are a less likely fit for this type of investment, we need to look at the take up. The types of services that are needed to replace the retreating public services are
not generally the types of services that can produce a surplus so are they, in the main, fit for purpose?

a. **What are barriers to fulfilling their potential?** Research has found that that it is not suitable for most charities especially the smaller ones. Given the makeup of the charity sector is seems it may be geared towards the larger charities or for profits moving into this field.

b. **The role of the Government.** I feel that the role of the government should be to try and influence local policy, look at ways to help charities keep more of their money (look at VAT and other tax breaks). Look at ways to help charities think outside the box and look at ways to support infrastructure / local grant funding. Quell fears regarding BREXIT – charities fear that the current trusts and foundations may well have fill the gaps left by European funding – Arts, Employability and social research. Indeed, funders are looking at how this will impact them and the funding they offer to the sector, it is also unknown if the government will use some of the EU ‘savings’ to fund the European funding gaps left by BREXIT, causing great uncertainty.

9. What should the role of Government be with the sector? We need a national champion – someone who ‘really’ understands the sector and fights to support it.
   a. **What should be the role of local Government?** We not only need a national champion but a local champion as well – someone who understands the sector and fights to support it. LA should be looking to work with the sector to help build capacity instead of saying we have no money to support the sector but yet we need it to grow, become sustainable and resilient and importantly fill all the gaps left by retreating LA services.

   How can we have a sustainable VCS when they are trying to fill gaps of a retreating public sector organisation – especially when the public services had a budget to deliver these services – more effort needs to be put in – how can we, as a local partnership, help support the sector, work with the sector to help it become stronger. In some cases, LA’s are seeking to offer additional services to grow their income – moving into territory traditionally used by the VCS to raise unrestricted income – therefore becoming a competitor. A competitor with great infrastructure support and reach – dwarfing the sectors efforts.

b. **What should be the role of the Charity Commission?** Critical friend, teacher, leader.

c. **Have these relationships changed? If so, how?** Not Answered

d. **How should Government (national or local) focus its resource to deliver its civil society agenda?** Seeking solutions to sustainability, setting building blocks in place – local structures – local support – locally resourced sector.

e. **What is the likely impact of greater local devolution on the charitable sector, or particular types of charity?** If the LA involves the sector in its thinking and looks to explore opportunities in partnership with the sector, then there are no doubt opportunities.

Lessons from other sectors and countries
10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland? Not answered.

*5 September 2016*