

NPC RESPONSE TO THE LORDS SELECT COMMITTEE ON CHARITIES' REVIEW INTO CHARITY SUSTAINABILITY

Written evidence from New Philanthropy Capital

Patrick Murray

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Summary

The Lords Select Committee's [review of the sustainability of the charity sector](#)¹ 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 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](#)², to the ['gagging' clause](#)³ added to grant agreements, to the Charity Commission's [guidance on campaigning in the EU referendum](#)⁴, 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 do more to support this agenda—in particular, by replicating the successful [Ministry of Justice Data Lab model](#)⁵ 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.

¹ UK Parliament website: ['Views on charity sector sustainability sought by Committee'](#) 20 July 2016
<http://www.parliament.uk/business/committees/committees-a-z/lords-select/charities-committee/news-parliament-2015/call-for-evidence/>

² UK Parliament, [Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014](#), 5 February 2014

³ Cabinet Office and The Rt Hon Matt Hancock MP ['Government announces new clause to be inserted into grant agreements'](#) 6 February 2016

⁴ Charity Commission, [The European Union referendum: The Charity Commission's regulatory guidance for charities](#), March 2016

⁵ Ministry of Justice website: ['Accessing the Justice Data Lab'](#), 7 November 2014:
<https://www.gov.uk/government/publications/justice-data-lab>

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

1. 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.
2. 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.
3. 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](#)⁶, the [Cabinet Office grants clause](#)⁷ that forbids charities from using public money to speak out, the [guidance from the Charity Commission on the EU referendum](#)⁸, and comments from ministers such as the infamous '[stick to their knitting](#)'⁹ 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.
4. 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

⁶ UK Parliament, [Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014](#), 5 February 2014

⁷ Cabinet Office and The Rt Hon Matt Hancock MP '[Government announces new clause to be inserted into grant agreements](#)' 6 February 2016

⁸ Charity Commission, [The European Union referendum: The Charity Commission's regulatory guidance for charities](#), March 2016

⁹ Abercrombie, R. '[Speaking truth to power](#)', NPC Blog, 3 September 2014.

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.

5. As NPC outlines in our recent paper, *Boldness in times of change*¹⁰, 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.
6. 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.
7. 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 reimagine 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.
8. Volunteering is changing too. The NPC-led *Commission on the Voluntary Sector and Ageing*¹¹ 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

9. 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

¹⁰ Hoare, G., Murray, P., Wixley, S. (2016) *Boldness in times of change*. New Philanthropy Capital.

¹¹ Commission on the Voluntary Sector & Ageing website: <https://voluntarysectorageing.org/>

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 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.

10. *NCVO's Almanac*¹² 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*¹³ 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.
11. The sector also has to contend with a loss of trust in charities—as *recent Charity Commission polling*¹⁴ 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*'¹⁵ 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.
12. 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*¹⁶). 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 effective and helping them deliver much greater impact.
13. As NPC argues in our *Tech for common good*¹⁷ 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*¹⁸, 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.
14. 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

¹² NCVO Almanac website: <https://data.ncvo.org.uk/a/almanac16/>

¹³ Crees, J., 'The squeezed middle' NCVO Blog, 11 February 2016

¹⁴ Charity Commission (2016), *Public trust and confidence in charities*

¹⁵ Murray, P. 'Do charities need a Gran test for fundraising?' NPC Blog, 21 January 2016

¹⁶ Joy, I., Murray, P., (2016) *It starts from the top*. New Philanthropy Capital.

¹⁷ Bull, D., Sabri, F., Lumley, T. (2015) *Tech for common good*. New Philanthropy Capital.

¹⁸ UK Business Digital Index 2015, Lloyds Bank website: <http://resources.lloydsbank.com/insight/uk-business-digital-index/>

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

15. 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](#)¹⁹, *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.
16. 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.
17. In order to help charities make the most of the digital innovation, skills, expertise and technology solutions need to be brokered in from 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.
18. 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.
19. 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.

¹⁹ NPC website: <http://www.thinknpc.org/our-work/projects/digital-transformation/>

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

20. 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](#)²⁰, efforts are sometimes hampered by a lack of capacity and funding, and often there is no big incentive to push a leader on to take those tough decisions.
21. 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 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](#)²¹ 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

22. 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.
23. 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

²⁰ 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

²¹ Wilding, Karl. ['Charity leadership in the age of digital'](#) NCVO blog, 19 April 2016

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.

24. 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 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.
25. 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.
26. 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

27. 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.
28. 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.

29. 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

30. 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.
31. 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.
32. 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.
33. 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.
34. 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 inform 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](#)²²—support greater understanding of the impact being delivered across sub-sectors, and help charities understand how they are doing compared to other similar organisations.

35. 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

36. 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 initiatives in this area.
37. 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 Blatvatnik School of Government's GOLab.
38. 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 blogged](#)²³, 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.
39. 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 SIFR investors—to be transparent and evidence the social impact they are contributing to.

²² Inspiring Impact website: <http://inspiringimpact.org/>

²³ Corry, D. 'Some ifs and buts around Social Impact Bonds', NPC Blog. 15 August 2016.

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

40. 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.
41. 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](#)²⁴ 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.
42. 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.
43. 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.
44. 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.
45. 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 adhere to these requirements; and amending guidance on paying trustees and allowing hybrid boards (where both executives and non-executives are full members).

²⁴ NPC (2014) [NPC's response to the Social Value Act review](#)

46. 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.
47. 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](#)²⁵ or the Work Programme provide some useful lessons.

²⁵ Noble, J. (2015) *Transforming rehabilitation: The voluntary sector perspective*. New Philanthropy Capital.

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. We 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.

New Philanthropy Capital
185 Park Street, London SE1 9BL
020 7620 4850
info@thinkNPC.org
[@NPCthinks](https://www.instagram.com/NPCthinks)

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