



BOLDNESS IN TIMES OF CHANGE

Rethinking the charity sector for the future

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NPC's State of the Sector programme

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ODGERS BERNDTSON

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CONTENTS

Summary.....	4
1. Introduction.....	5
Keeping pace with change.....	5
NPC's State of the Sector programme.....	5
About NPC and its role.....	6
2. Getting to grips with the context.....	7
Taking stock.....	7
NPC's views on key trends in the sector.....	8
3. Rethinking resources, relationships and models to maximise impact.....	13
Questioning the traditional model of charity.....	13
Making the most of the devolution agenda.....	18
4. Supporting charities to deliver greater impact.....	20
The funding landscape.....	20
Infrastructure in a digital age.....	25
5. Building governance and leadership fit for the future.....	28
Sector-wide leadership.....	28
Rising to the governance and leadership challenge.....	28
New types of leaders.....	29
The questions boards need to examine.....	29
Impact management.....	31
6. Conclusions.....	32
Next steps.....	32
References.....	34

SUMMARY

Whether it is the impact of Brexit or high-profile fundraising scandals, a fall in state expenditure or digital disruption, wavering public trust or demographics shifts—these are times of great flux for charities. The charity sector is diverse, so each organisation and part of the sector will be affected differently. But these ripples of change will reach all of us. The question is: how will we respond?

This paper is the first in our State of the Sector series. It makes the case for a bold and imaginative response. We believe that there is both an opportunity and a necessity for charities, social enterprises and funders to rethink how they use the resources available to them, to reimagine how they are supported and to refresh their approach to leadership.

Not for the first time, charity leaders will need to innovate to get through. Some are already showing the way, as the 'bright spots' of practice highlighted throughout demonstrate. Funders also have a role to play in enabling new models to flourish. And charities must work collectively to better harness the power of data and digital.

Following this synthesis of the issues, the next stage of our [State of the Sector programme](#) is to conduct primary research to explore whether the challenges and ideas presented here align with sector leaders, advisors and commentators. Our findings will be published later in the year and into 2017 and we will seek opportunities to debate these through roundtables and events. The final stage will bring together essays from innovative leaders on how we can transform the charity sector to continue to deliver impact for the causes and people that charities are there to serve.

1. INTRODUCTION

Keeping pace with change

As the world around us changes, the charity sector must keep up. Whether you are the leader of a large or small charity, a corporate, statutory or independent funder, or a social enterprise that is new or established, you will know first-hand how the enormous flux in the external environment is challenging 'business as usual' thinking, disrupting old ways of operating and unsettling long-held power relationships.

Like the rest of society, charities are riding on the waves of change: the twin digital and data revolutions; the changing role of the state; the huge uncertainties thrown up by the EU referendum result; and enormous demographic shifts. On top of that, the last few years have been particularly tough for charities.

2015 was an especially testing time. The charity sector's approach to governance, senior pay and fundraising practices attracted scrutiny and criticism like never before from the media and policymakers. The tragic case of poppy seller [Olive Cooke](#) and the closure of the charity [Kids Company](#) were just two high-profile examples. As shown by the Charity Commission's latest polling, [public trust in charities has declined](#).¹ 2016 has brought with it renewed pressure on campaigning, and a new fundraising regulator. The scale of change and the range of pressures on the sector can seem overwhelming at times.

Of course the sector has faced many challenges in the past, and has gone on to thrive in many different environments. And this diverse sector will be affected and challenged in different ways by the new pressures. No one response will fit all in a sector that spans small volunteer-led community groups and large, complex organisations and deals with challenges ranging from protecting wildlife to tackling entrenched social problems like homelessness, as well as running museums and public schools. Yet the cocktail of long-term changes we face affects us all in the charity sector and demands a bold new response. This report makes the case for a change in approach and explores what this might look like.

NPC's State of the Sector programme

Boldness in times of change is the first output of our [State of the Sector programme](#), aimed at injecting new thinking and ideas about how sector leaders in the UK can respond to the changing environment. It brings together our practice and thinking to identify what are, in our view, the critical issues, challenges and opportunities facing charities and the sector in 2016 and beyond.

This paper focuses on synthesising some key challenges and opportunities for charities and funders, presents new ideas and responses that challenge thinking and provides insights on innovative approaches that will be explored further in future research. We have maintained an element of optimism—identifying opportunities for charities and highlighting the 'bright spots' of practice that currently exist.

Boldness in times of change examines the current context for charities and then explores how charities can:

- Respond by rethinking models, resources and relationships to maximise impact.
- Be supported to deliver greater impact through the funding environment and reimagining infrastructure in a digital age.
- Build governance and leadership that is focused on maximising impact in the new world.

About NPC and its role

[New Philanthropy Capital](#) (NPC) is a consultancy and think tank, dedicated to helping charities and funders achieve the greatest impact possible. This paper and our [State of the Sector programme](#) draws on our practical insights and knowledge from almost 15 years of advising charities, social enterprises, grant-makers, donors and corporate clients. We also offer a perspective from our unique position as an independent think tank, with an overview of future trends, the latest thinking on how to improve effectiveness in charities and funders, and an understanding of the issues that matter to the sector.

We are passionate about helping charities and social enterprises to be more successful so that their efforts go further for the people, and the causes, they serve. For this reason, we are keen to engage with the pressures and opportunities facing charity leaders, their organisations and the sector more widely—so we can support them to respond in these times of flux and make the most of the resources available.

2. GETTING TO GRIPS WITH THE CONTEXT

In this chapter we explore the major trends affecting charities and the wider charity sector, including changes in the political environment and the impact of digital innovations and demographic shifts.

Taking stock

A number of recent publications have examined the current external environment facing the charity sector—also referred to as the ‘third sector’. Although they focus on different aspects, they put forward a unified view: the third sector is facing serious challenges that endanger the survival of individual organisations and threaten existing ways of doing things. NCVO’s 2016 review of the operating environment of the third sector, *The Road Ahead*, highlights the immediate challenges facing charities. It focuses in particular on changes to the state in the form of austerity and devolution; the need for charities to play ‘digital catch-up’; and the requirement for charities to respond to public concerns around fundraising, governance and chief executive pay.²

In their recent book, *The Logic of Charity*, Mohan and Breeze put the current operational environment for charities in the context of public opinion and donation practices. They argue that charities currently face high expectations but a low level of public understanding of charity in theory and practice. In particular, they highlight that a common sense view of charities as serving only the ‘worst-off’ in society does not correspond with the operational ‘logic’ of charities, which they argue is to recycle resources within communities rather than redistributing resources or making connections across communities.³

The future of ‘doing good’ in the UK, prepared for the Big Lottery Fund by Sonia Sodha, outlines the key issues facing the sector in creating social value in the future. This includes creating more collaboration within and across sectors, ensuring a healthy level of competition, and working more through the public and private sectors.⁴

Taking a global view, Civicus’ 2015 *State of Civil Society Report* outlines the situation facing global civil society as one of ‘less money, more problems’. The authors point to the lack of infrastructure or ‘scaffolding’ that helps strengthen civil society’s collective voice when it is threatened.⁵

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. This uncertainty simply adds to the sense that we must be bold and that—to continue to do well—charities need to be better than ever at adapting to change.

NPC's views on key trends in the sector

We identify the following three factors as the key external drivers of change for charities:

- The rise and fall of state expenditure in the sector, coupled with new pressures on fundraising practices.
- The changing political framework that charities operate under, both through the aftershock of the EU referendum, and longer term political trends such as the relative decline of 'Big Society' as a potential guiding narrative and the rise of devolution and social investment as a means to achieving social policy aims.
- Wider societal changes such as shifts in demographics and public attitudes, as well as the 'digital revolution'.

Funding under pressure

A key issue for the third sector in the UK today is the rise and fall of state expenditure in the sector. [NCVO data](#) from 2013/2014 suggested that income to the sector as a whole from the government rose slightly to £15bn from 2012/2013 to 2013/2014. However, this was in the context of a longer term downward trend; in particular, NCVO noted that levels of government grants were less than half the level they were ten years ago (at £2.8bn).⁶

The reduction in state funding for charities presents a major challenge for those organisations that have traditionally received grants, and latterly contracts, from their local councils. The budgets for local authorities have been particularly hard hit over the last few years. The National Audit Office estimates a [37% real-term reduction in government funding](#) to local authorities between 2010/2011–2015/2016.⁷ Inevitably this has impacted on the local voluntary sector, especially for those charities operating services that are not regarded as a statutory duty for their local council.⁸

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. The fundraising think tank Rogare has estimated this could [reduce fundraising income by up to £2bn](#) by 2020. The potential for a longer term decline in public trust, explored later in this section, is likely to reinforce this trend.

Community Links: Responding to changes in the funding landscape

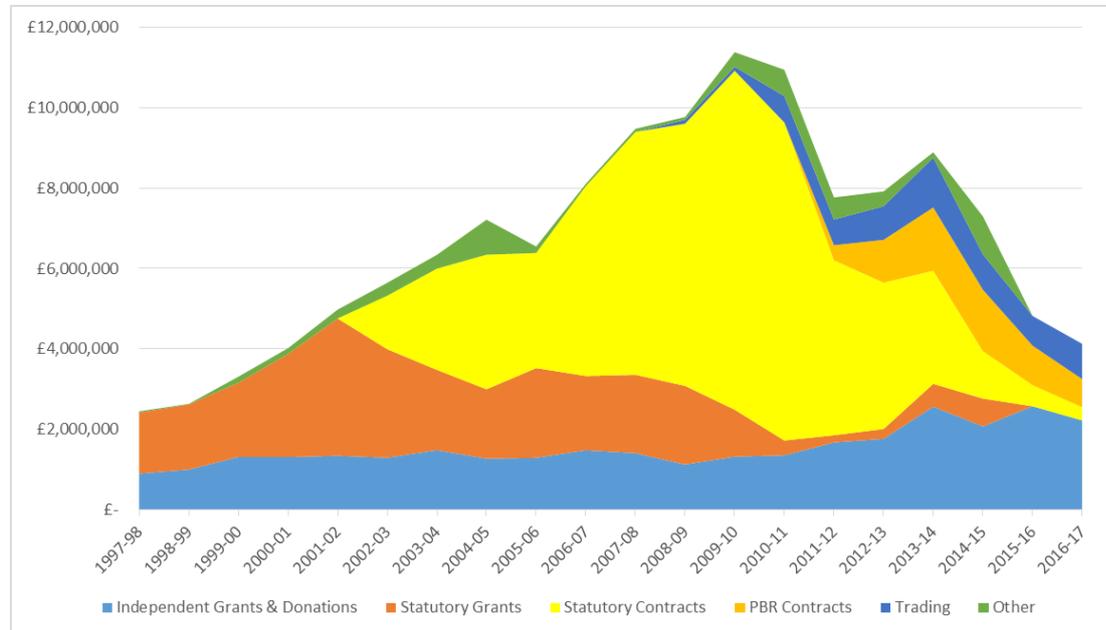
Figure 1 provides an analysis of the income sources over the past 20 years for the charity Community Links, which helps disadvantaged people in east London. Public sector contracts are shown in yellow, illustrating the rapid growth and equally rapid disappearance of that source of income for one charity. This is a pattern that is mirrored for many other charities.

Community Links Chief Executive Geraldine Blake explained: *'We don't regret the years of public sector income—we were able to reach many thousands more people, delivering much needed outcomes. Of course we suffered from the usual tensions of any organisation that both delivers and campaigns—with significant amounts of income from government sources, needing to be careful that our campaigning approach remained evidence-based and solutions-focused.'*

Faced with extremely difficult decisions, we responded strategically. We made a conscious decision not to bid for any old contract but to remain focused on our core purpose and areas of expertise, despite the inevitable reduction in size. We put our mission and values—our most powerful tools—at the heart of all our decision making, ensuring that, as our span of activity reduced, we maintained a coherent set of services underpinned by our unique approach. We used the opportunity to join up local services more effectively, thereby providing service users with more integrated support. We maintained our national research and policy team so that we were able to track the local impact of policy changes, share what was working, challenge what wasn't and test and evaluate solutions. And we continued to try and shape the environment around us, for example by establishing the Early Action Task Force.'

Over the last five years we have transformed the business model of Community Links to one which has more balanced income sources, fewer risks and as much predictability as is possible. We've changed from an organisation that delivers services at a large scale to one that focuses on testing responses at a smaller scale and sharing the learning to increase our impact.'

Figure 1: Funding for Community Links, 1997–2017



www.community-links.org

Changing political framework

The ‘[Big Society](#)’ as a model for engaging charities and delivering social policy goals has not come to fruition. Its model of a flourishing civil society seemed to hold great promise for the third sector, both in terms of delivering services and helping communities to empower themselves. There are many explanations for why the Big Society model hasn’t worked; Civil Exchange’s final [Big Society audit](#) in 2015 contended that one reason was the failure of the government to create a strong partnership with the voluntary sector.⁹

Whilst the Big Society made a reappearance in the [Conservative Party’s manifesto](#) for the 2015 General Election¹⁰, and the National Citizenship Service continues to be part of the policy mix concerning the voluntary sector, it appears that a Cameron-led government intended to pursue its social policy objectives in a new way. This included the emerging ‘[Life Chances’ agenda](#)—bringing a renewed focus on tackling entrenched, overlapping social problems such as mental health issues, drug and alcohol addiction and prison reform.¹¹ These are areas that NPC has previously [argued offer opportunities for the sector](#).¹²

Over recent months and years, the policy rhetoric had shifted to a mixture of broadening devolution from a narrower focus on growing the economies of city-regions to include public service transformation. Alongside this the government had given greater freedoms to prison governors and others, and had made repeated and sustained attempts to grow the social investment market. As yet it is unclear to what extent this would have been developed into a fully fledged strategy, or whether it was a more piecemeal approach to tackling the most complex social problems in our society.

However, the result of the EU referendum has thrown everything up in the air. Whether these policy shifts will continue will depend on the policies of the new prime minister, and potentially the outcome of any general election

that may be called. Furthermore, the government will be focused on the terms and negotiations for exiting the EU, potentially for years to come. Within this context central government activity in other areas may be limited for the foreseeable future. However, even if further devolution efforts stall, the effects of giving more power to different actors at different levels of the state over the last few years will still be felt. It may indeed be the case that the more innovative thinking around tackling social challenges will happen through these new devolved structures.

Shifting demographics

Long-term social changes are shifting the basic assumptions of what the charity sector actually does. The NPC-led [Commission on the Voluntary Sector & 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.¹³

This ageing population presents both opportunities and challenges. The resulting health and social care issues will be complicated by the structure of health and wealth inequalities in communities, as outlined in [The Marmot Review](#).¹⁴ However as the Commission on the Voluntary Sector & Ageing argued in its [final report](#), older people are also an asset that is not yet well tapped into. By 2030 the value of social care provided by older people could reach nearly £52bn and the value of older volunteers could be £15.7bn if current levels continue.¹⁵ This effort, the Commission argues, should not be taken for granted and will not be there if the third sector does not adjust.

Another major and related demographic shift is that people with long-term health conditions and disabilities are living longer, healthier lives. In response, policymakers have recognised that a hospital-based model of fixing a particular health problem is inadequate when there are so many people living with multiple, long-term conditions. The [NHS Five Year Forward View](#) seeks to shift models of care from hospitals into the community, and seeks to increase the use of preventative, integrated solutions to help people manage their conditions rather than needing repeated trips to hospital.¹⁶ The government's pledge to halve the disability employment gap offers great potential, if this promise is realised. However, it will take sustained efforts to help people overcome the additional barriers in their way. The new 'Work and Health' programme is part of these efforts, but there are many [lessons to be learned](#) if we are to maximise the contribution of the voluntary sector here.¹⁷

The third major shift is migration. Net migration into the UK has [topped 100,000 a year for the last ten years](#)¹⁸, while the same period has seen unprecedented refugee movements as people flee persecution and civil unrest in Syria, Iraq, Afghanistan and many countries besides. People are more mobile and more connected than ever before, and at times host nations have struggled to cope with the number of new arrivals.

Again, there is great potential for countries like the UK to harness the potential of people seeking to make a new life, as they seek solutions to an ageing workforce. However, some charities we work with report huge growth in the diversity of people seeking their help, as well as the speed of change and churn in some communities, making it harder to support people to integrate. Undoubtedly, too, the issue of destitution amongst asylum seekers in the UK presents real challenges for charities that require a robust response, including from the sector.¹⁹

Disruptive digital technology

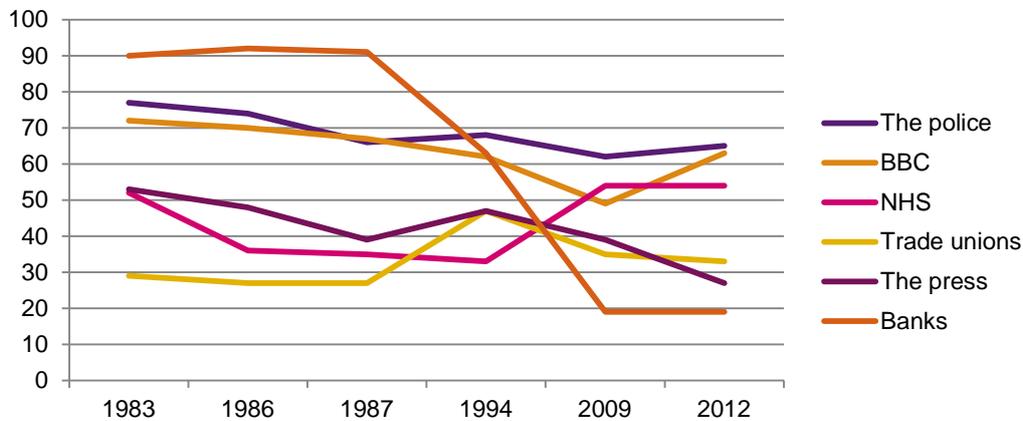
NPC has [previously argued](#) that digital technology presents a major challenge to today's civil society, and that by 2025 we will be faced with a 'digital civil society' that holds qualitatively different challenges and opportunities for charities.²⁰ Indeed, digital advances in the last 20 years have already changed our world beyond recognition. Technology connects us across borders, it enables us to share and learn in new ways, and it can level the playing field as citizens and consumers have easier access to a wealth of information and new ways to directly express their views. As a result, some long-established businesses (from hotels and taxi companies, to airlines and bookshops) have been rendered obsolete as [new models arise](#). There is no reason to suppose that charities are immune from these widespread disruptive ideas.

Declining trust

Against this backdrop, public views are also changing. Comparing attitudes in 2015 to the 1991 British Social Attitudes Survey reveals that members of the public are now more likely to think that people should be self-reliant rather than depending on charity. The survey also suggests that the public increasingly regards the third sector as being made up by a complex mix of organisations (making it difficult to decide which organisations or causes to support) and they also have concerns about charities wasting their funds.²¹

Many public institutions have been hit by falling levels of public trust, as illustrated in Figure 2. There is a danger that larger charities, perhaps associated in the public mind with these other large institutions, are also affected by declining trust. As we know from our own *Matter of trust* research, public trust in UK charities is lowest among people who see them as big and political. For example an online survey carried out for NPC by Ipsos MORI in mid-2014 found that those who think of national or local charities, as opposed to international charities, are more likely to have high levels of trust (27% vs 21%).²²

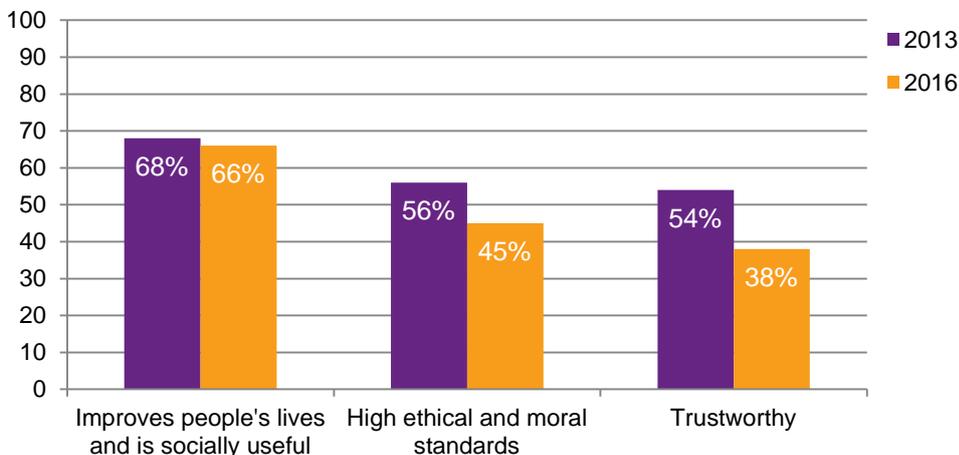
Figure 2: Public trust in institutions, 1983–2012 (% saying institution is well run)



Source: British Social Attitudes Survey 2013²³

A comparison of public trust in charities in 2016 with data from 2013 reveals a worrying picture, with fewer people thinking charities are trustworthy (see Figure 3). This downward trend was confirmed by [polling for the Charity Commission](#) in early 2016 which found that trust in charities had fallen from 6.7 out of 10 in 2014 to 5.7 in a year—the lowest recorded level since monitoring began in 2005.²⁴ Of those questioned, 33% of respondents gave media stories as the top reason for trusting charities less.

Figure 3: Public trust in charities (% of the public that agree with each statement about the charity sector)



Source: YouGov, February 2013 and February 2016²⁵

The longer term trend and the likely impact of this trend is unclear. Figure 2 suggests a range of possible outcomes. If public trust in charities falls, will it plummet (like trust in banking), gradually decline (like trust in the press and the police), or rebound (like trust in the NHS)?

The missing ‘feedback loop’

Within this context, it is important to remember the unique position of the charity sector. It is true that the boundaries between the third sector and the private and public sectors have become increasingly blurred by the rise of social enterprise on the one hand and the contracting out of public services on the other. At the same time, however, as NPC’s Chief Executive Dan Corry highlighted in a [lecture to the RSA](#), the feedback loop that exists for the state and the market does not exist for charities.²⁶ The state’s priorities are set, at least in theory, by voter preferences, while consumers are able to vote with their feet when their demands are not being met. However, for charities, the ‘buyer’ or funder of services is often not the beneficiary of those services.

The growth of personal budgets in some sectors is changing this at the margins. However, on the whole, a charity responds to what funders want but delivers its services to a third party or beneficiary. In short, the sector lacks a feedback loop as a mechanism for accountability to beneficiaries.

Meanwhile, citizens increasingly expect to be able to have a say in matters that affect them. A model that relies on someone else, whether funder or charity, to decide what they receive without involving them could prove less effective in an age of changing expectations and increasing personalisation in all sectors.

Concentration of income in a few large organisations

Although in this report we talk of ‘the sector’ as a whole, the charity sector is far from homogeneous. There are more than 160,000 registered charities in England and Wales, almost 24,000 in Scotland and between 7,000 and 24,000 in Northern Ireland.²⁷ The sector continues to be dominated financially by a small number of very large organisations. Using data from 2013/2014, [NCVO’s 2016 Almanac](#) found that half of all assets in the sector are held by 1,000 of its 162,698 organisations, and 0.02% of charities receive 18.4% of the total income. At the same time one third of charities with an annual income of less than £1m are in a financially precarious position, operating with no reserves.²⁸

3. RETHINKING RESOURCES, RELATIONSHIPS AND MODELS TO MAXIMISE IMPACT

The changing environment we have outlined in the previous section demands new responses from charities themselves. In this section we examine how rethinking the resources available, and the relationships and business models needed to maximise them, can help the sector to deliver greater impact.

Questioning the traditional model of charity

Traditionally, a charity is set up when an individual or group of individuals spot a problem that they think needs solving. They set up an organisation and attract resources and try and fix the problem. As illustrated in Figure 4, charities like this work in a number of ways: providing goods and services directly to beneficiaries or indirectly through infrastructure or by influencing the design of state services, or public behaviour and attitudes, for the people or causes they support

Figure 4: The roles charities play



In the changing context described, this conventional model may no longer be suitable as the default approach. Instead, we suggest charities need to consider more creatively what resources are available to them and how they can make the best use of these to deliver their work and create the greatest impact.

There are already some new ways of thinking about this and here we highlight different ways that some organisations are looking at what resources are available, how they can be optimised and what new relationships need to be built to make the most of them. This includes:

- Building on the assets of beneficiaries and communities.
- Brokering and harnessing new resources.
- Social enterprise business models.
- Making the most of the devolution agenda.
- Changing relationships with supporters.

Building on assets of beneficiaries and communities

In contrast with this traditional model of charities, an asset-based model sees the flow of resources going in a different direction and charities playing new or enhanced roles in terms of enabling communities and individuals to discover and build on their own resources. Arguably this approach of enabling people to achieve changes themselves by supporting them to build on their strengths also helps people build a more sustainable future as they develop the tools and internal resilience to face any future challenges without the need for as much external support.

Some organisations are already operating on a model where more power and control rests with the community and there are also examples (including some of the bright spots highlighted in this paper) of new organisations embracing this approach. More charities are looking at asset-based approaches in these turbulent and straitened times, not least because of higher expectations from consumers and citizens to have greater control over the goods and services that they purchase and receive. There is also pressure on policymakers to find workable early intervention models that curb public demand for services. The opportunities offered by digital technology are relevant too, given *'its ability to connect, coordinate, process and categorise at scale and with unparalleled speed'*, as we argued in our 2015 report, [Tech for common good](#).²⁹

Mayday Trust: Journey to a strength-based model

Mayday Trust is a charity that supports people going through difficult times, such as experiencing homelessness, leaving care or coming out of prison.

Since 2011, Mayday has developed a strength-based model for working with people experiencing homelessness and some of life's toughest transitions, such as leaving prison or care. The model focuses on supporting people to find their purpose and building positive relationships outside of the homelessness sector and peer groups.

Mayday's 'asset coaches' work with people to identify what they are good at, and broker opportunities in the community to pursue interests and goals. The agency and power rests with the person rather than the organisation. Early results as measured by their Developmental Assets tool, adapted from the US-based Search Institute system, show a statistically significant increase in assets, as well as a resulting achievement in the harder outcomes such as employment, education and training, reduction in offending and improved mental well-being.

This has not been an easy journey for the organisation. The transformation from a more traditional model of trying to fix people's problems has required buy-in throughout the organisation. In the first year there was significant staff turnover, and some of the 'asset coaches' came from a peer background in the homelessness sector. New relationships have been sought and built with commissioners and funders that share the organisation's vision for transforming how homelessness is tackled.

www.maydaytrust.org.uk

As shown in the Mayday Trust example, being prepared to cede power to those making the change for themselves is a prerequisite for organisations being able to maximise the capacity of these resources. These shifts are not easy and there are different ways of achieving success. However, the key factor is that moving to strength- and asset-based models are about much more than a shift in language. Rather, it involves a shift in mind-set and culture from focusing on 'what's wrong' to 'what's strong' to build enabling relationships that will lead to new models that maximise the potential of a wider range of resources.

Asset-based models are not without their critics. It has been argued that they can be used as a veil for cutting services. Indeed, without action to address the fact that some people and communities face additional barriers to

realising their potential, it is possible that merely adopting the language of asset-based models could exacerbate problems arising from existing inequalities in social capital.

They are also not the answer in every circumstance. There will still be a place for organisations that respond to immediate need in a crisis. Instead, this alternative model can play a part in enabling people to live to their full potential, and engendering genuine community participation and ownership in overcoming challenges, thereby reducing demand for services.

Even for those organisations that are not going to embrace an asset-based approach, there are elements of this perspective that are relevant. For organisations that focus on campaigning and policy change, rather than service delivery, one key question is how can they make sure the voices of the people accessing their services can be heard? Increasingly, charities are exploring different ways to connect people and policymakers so that individuals and communities can speak up for themselves. As the Making Every Adult Matter (MEAM) coalition shows, the co-production model can be a powerful way to influence public policy and service design. Charities can play a key role in opening up opportunities for the people they work with to speak up and influence wider systemic change.

Making Every Adult Matter (MEAM) coalition: Collaborating to amplify voices

MEAM is coalition of Clinks (a charity working with offenders and their families), Homeless Link and the mental health charity Mind. It was formed in 2009 with the aim of improving policy and services for people facing multiple needs. An estimated 58,000 people in England experience a combination of problems with homelessness, substance misuse, mental ill health and contact with the criminal justice system.

Through MEAM's Voices from the Frontline project, it has explored some of the local and national policy challenges affecting people with multiple needs, such as how services are funded and commissioned and the support people receive in moving towards employment. Participants in the project shared their ideas through workshops, videos and meetings with Members of Parliament (MPs).

The project has shaped the MEAM coalition's approach to influencing and the wider policy work of the three founding charities.

www.meam.org.uk/voices

Another example of organisations rethinking how they approach their work to focus on the assets of their beneficiaries is the Bond '[Date Aid](#)' campaign for NGOs working in international development. This highlights that anti-poverty campaigns using pity make people feel cynical about aid and encourages organisations to portray the communities in which they work in a very different way to help people feel hopeful and motivates action. This more empowering approach reduces the danger of stigmatising the very people and communities organisations are seeking to work with to change their circumstances for the better.

Brokering and harnessing new resources

Now is the time for charities to think imaginatively about what assets exist, where their interests coincide with others and how best to harness them. For example, Alzheimer's Research UK has used new technology to get the public involved in researching the effects of dementia. Its innovative [Sea Hero Quest](#) is a mobile game that has already been played by 1.4 million people. Playing the game for just a few minutes helps scientists to understand how our brains navigate space, building '*the largest crowd-sourced database on human spatial navigation*'.

At the same time, with the 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.

[Deloitte research](#) shows that millennials, more so than previous generations, want and expect to make an impact whatever sector they work in.³⁰ For charities looking to maximise the resources offered by partners in the private sector, there are new approaches that go beyond narrowly defined CSR programmes and may involve brokering skilled volunteering from the private sector that directly delivers to people and organisations that need support.

Law Works: An established model for brokering skilled resource from other sectors

Law Works partners with law firms, in-house teams, universities and others to broker skilled pro bono volunteering, particularly from the private sector. It connects lawyers directly with individuals and organisations in need of legal advice. The charity supports a network of clinics where lawyers provide pro bono legal advice on social welfare law including employment law, housing matters, consumer disputes, debt, and welfare rights directly to people who do not qualify for legal aid. Law Works also runs a 'not-for-profits' programme that matches lawyers directly to smaller charities that need legal help with an issue but do not have the means to afford it privately.

Over the last year 29,000 people who could not afford legal help have been supported through the network of clinics and more than 160 not-for-profits supporting a range of beneficiaries have benefited from free legal advice. Law Works is co-located with a number of other access-to-justice charities in the Pro Bono Centre, enabling greater sharing of resource and collaboration between organisations with a similar mission.

www.lawworks.org.uk

Crisis Action: A new approach to building coalitions for change

Crisis Action was formed in 2005 to convene joint action to protect civilians from armed conflict. With offices in Brussels, Johannesburg, London, and Washington DC among other places, Crisis Action works behind the scenes to enable coalitions to work quickly and effectively on crisis situations such as Sudan or the Arab Spring.

The organisation uses an innovative model: it develops and facilitates 'opt-in coalitions' to unite and mobilise international organisations (such as Oxfam or Amnesty International) in joint action with grassroots organisations. This approach, recognised by the [2013 Skoll Foundation Award for Social Entrepreneurship](#), has had a number of notable successes including securing one of the largest UN peacekeeping forces for Darfur.

Crisis Action describes itself as '*an honest broker, helping diverse organisations with a wide range of perspectives to identify and forge a shared agenda... we seek no public profile or media spotlight; it is the voice of the coalition that matters*'.

www.CrisisAction.org

Social enterprise models

Many charities have assets and expertise that could be used to generate an income and many are already exploring this approach. This may involve providing a service to a group unrelated to beneficiaries and putting the profit generated back into the charity, or combining social impact with generating a profit. This enterprise model might be one strand of activity or it may shape the whole organisation.

Defining social enterprise

The membership body [Social Enterprise UK](#) describes social enterprises as businesses that trade for a social and/or environmental purpose and have a clear sense of 'social mission'. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community.

Social enterprises take a range of legal forms, for example:

- Community Interest Companies (CICs).
- Standard companies limited by share and guarantee.
- Social enterprises with charitable status.

Social Enterprise UK's latest [State of Social Enterprise Report](#) states there are now 70,000 social enterprises in the UK, with 49% less than five years old. Half of these organisations made a profit last year, demonstrating sustainable business models and 31% are based in the 20% most deprived communities.³¹ Organisations that seek to marry social impact with a sustainable business model span a huge range: from community pubs and shops that serve as a locus for engagement and inclusion, to those delivering opportunities for people facing disadvantage to set up their own businesses rather than rely on external services.

Camerados: New approaches to working on old issues

Camerados is a community interest company that works with people experiencing homelessness and facing other severe and multiple disadvantages. Set up in 2016, it currently has activities in Blackpool, Sheffield and Lincoln. It was founded on the idea that the people they work with experience severe isolation and boredom and can only transform their lives over the long term if they have two things: friends and purpose.

In their own words, Camerados 'operationalises friends and purpose by co-ordinating a national co-operative of people living with severe and multiple disadvantage, who create and run micro-businesses and activity-based projects, supporting each other through solidarity and sharing of resources. Through this collaborative work, people will gain friends and, as a result of owning the businesses and projects they set up, purpose.

Camerados is also setting up a project called the "living room". These [are] places where people can go if [they are] having a tough day and need company and comfort—a place to tackle isolation on the high street that is NOT a service.

Then, through the co-operative movement and a wider campaign, Camerados aims to use people's individual and collective stories to change wider societal mind-sets and the stigma associated with people living with severe and multiple disadvantage.'

www.camerados.org

There are long-established, larger social enterprises—arguably the housing association movement has a claim to the mantle of social enterprise, for example. However, many smaller community based organisations have grown up, partly due to the lower barriers to entry in setting up a social enterprise, but also as a model that offers greater dynamism and freedom to innovate.

As ever there are opportunities and challenges for more established charities. As millennials are less focused on who delivers impact, and more focused on the fact that impact is delivered, this means that some charities may find themselves facing increased competition from more fleet-of-foot organisations. On the plus side, those looking to shift their model to build more on community and beneficiary strengths may benefit from finding ways to share resources with organisations that share a similar mission.

However, it is important to remember that there are limits in terms of how far these boundaries can be blurred. Ultimately, for a social enterprise to work there must be a consumer demand for the products they produce or services they provide. There is a danger in some cases that the intended beneficiary is overlooked as the feedback loop runs to the consumer in this market-based model.

Indeed, the housing association example could be a cautionary tale. Some larger organisations have [faced criticism](#) in recent months and years as they concentrate on expanding home ownership products due in part to the lack of available funding for social housing, and welfare reform, undermining the traditional business model.³² The question of who houses those at the bottom of the market is a growing concern. There is still a place for mission-driven organisations that respond to demand that is neither a priority for voters nor led by consumer demand.

Changing relationships with supporters

Donations and legacies generated through fundraising and the support of volunteers are all crucial for many charities. In the context of changing attitudes towards charities and also changing expectations of supporters of all sorts, charities need to think about how they find, engage with and develop ongoing relationships with their supporters. Indeed, members of the public who have connections with charities, because they use their services or volunteer or work there, are notably more positive towards them than those who do not.³³

Arguably many organisations have taken these important relationships for granted. As Mike Adamson, Chief Executive at the British Red Cross explained in an [interview recently](#), *'In the past, some of our fundraising has been more transactional, which is a risk when you are building relationships with hundreds of thousands of people... The switch we are making is to become much more relationship-based and much more cause-based so that you have more information about the impact that your donation is making and you therefore want to support for longer.'*³⁴

Those charities that successfully recalibrate their relationships with supporters over the coming years will reap the benefits in multiple ways.

Making the most of the devolution agenda

The devolution agenda has broadened beyond a narrower economic focus to encompass public service transformation. Despite the less-than-healthy state of local authority finances, the new powers and freedoms being made available to city-region mayors, prison governors and others offers opportunities for charities working in and with communities. For those working in community based preventative services, the shift in the [NHS Five Year Forward View](#) puts the role of charities at the heart of healthcare models³⁵, even if progress is slower than many would like beyond the new integrated health and social care models being developed in the [vanguard sites](#).

Whether the devolution agenda delivers the promised benefits or not, it does create an environment where a range of actors have greater convening powers, and greater incentives to collaborate to maximise resources. It is

perhaps easier to galvanise actors external to the system, and find allies for change within, to tackle the shared challenges a community faces. Moreover, in an environment where central government capacity is tied up negotiating the post-Brexit world with the EU, it may be that local actors, using new powers, will be the people seeking innovative solutions to complex social problems.

However, this decentralised agenda comes with inherent challenges for all charities. For larger charities, for example, seeking to navigate a more local environment can be a struggle. For smaller charities, it can be difficult to know who to engage with in new structures, and how best to make your voice heard when policymakers have so many competing agendas. And for issue-specific organisations, it can be difficult to shift towards an approach that spans different issues in the long term: for example, a health charity focused on a specific condition will need to think carefully about how it meets the interests of actors interested in integrating services to work for people with multiple, long-term conditions. In all cases building new relationships with partners across the sector to ensure a common voice to influence and deliver policy, such as the [Richmond Group of Charities](#) have done by bringing together leading charities working in health and social care, offers a way forward.

Indeed, 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.

4. SUPPORTING CHARITIES TO DELIVER GREATER IMPACT

Just as there are many things that organisations themselves can do to deliver greater impact in the changing third sector, there are also opportunities to rethink how charities can be supported. In this section we examine how funders can support charities and how the digital age offers new opportunities to rethink how infrastructure functions can be delivered.

The funding landscape

The funding environment for charities is varied and includes a range of sometimes interrelated actors—including philanthropists and other individual donors, corporate and independent grant-making trusts and foundations, the state and social investors. They provide everything from donations to grants, tax breaks and social investments to community fundraising drives and support in-kind.

Figure 5 shows the key sources of income that make up the total of £43.7bn a year. The mix of funding sources will vary from charity to charity, as will the exact relationship, comparative size and relative importance. Overall currently the two largest sources of income for charities are public sector contracts and donations from individuals.

Figure 5: Income sources for the voluntary sector, 2013/2014

Public sector contracts	£12.1bn
Donations and legacies	£9.4bn
Fees from individuals	£6bn
Fundraising activities	£4bn
Investment income	£3bn
Grants from trusts	£2.9bn
Government grants	£2.8bn
Other sources*	£3.5bn

Source: NCVO Almanac 2016³⁶

*Other sources include: corporate donations (£1bn), National Lottery grants (£488.7m), and corporate sponsorship (£313.5m).

Maximising the impact from these different types of resources, and some of those explored in the previous section, is not straightforward. Within this ecosystem, major changes in one part of the system are likely to affect other parts, including funders. Given this interconnectedness, a more systemic approach—including from funders—can encourage greater collaboration, which in turn can help to maximise resources and deliver greater impact.

The changing state

Among the shifts in the funding landscape is the changing relationship between charities and the state. This has manifested itself in three areas:

- The reduction in state funding for charities.
- The movement from grant funding to contracting arrangements.
- The emergence of new commissioning models, such as more integrated joint-commissioning approaches or the growth of payment by results, including social impact bonds (SIBs).

As already mentioned in section 2, the reduction in state funding for charities presents a major challenge for those that have traditionally received grants, and latterly contracts, from the public sector. Inevitably this has impacted on the local voluntary sector, especially those who operate services which do not constitute a statutory duty for their local council.

The change from grant to contract income, however, appears to have offered challenges as well as opportunities. In recent years local authorities have moved to a contracting model where the commissioner defines the specifications and charities compete to win a contract, and then deliver against the outcomes the local authority has chosen to focus on. For commissioners, this can offer greater control over the impact sought, and transparency for taxpayers over public money, than a more traditional grant giving process where charities apply for a grant for particular projects and then carry out the work in line with their own proposal and plans. For charities, this shift has led to increased competition between charities and with the private sector. Some have argued that this has led charities prioritising winning and delivering contracts over fulfilling their mission. For those charities that put impact at the centre of what they do, in one sense it is not important who wins a government contract—as long as they are well-placed to deliver social impact. However, NPC has argued for public services commissioning to be made fairer, so that charities can compete on a level playing field.³⁷

Currently, commissioning presents a challenge for many charities. The overall effect of the current commissioning model has been to squeeze out smaller specialist providers that cannot deliver at large scale and cannot compete on cost with larger organisations that deliver a wider range of services and are able to benefit from cost efficiencies as a result. The move towards fewer and bigger contracts has been particularly challenging for those medium-sized charities that are not large enough to operate as a prime contractor, but nevertheless depend on the levels of income that contracts of that size provide.

Within the context of devolution, however, there is a real danger that this trend towards ever-larger contracts being commissioned out may be replicated across a combined authority area. This would undoubtedly be challenging for smaller, specialist charities to engage in. For example, the population of Greater Manchester is 3.36 million—larger than Wales. The potential for these sorts of ‘mega-public contracts’ to replicate the challenges seen by charities in the [Transforming Rehabilitation](#) process is real.³⁸

Devolution does offer a huge opportunity to break down public sector silos and commission services that reflect the complex, interrelated nature of the challenges faced by people accessing multiple public services. The kinds of integrated, holistic solutions that the voluntary sector can provide should be music to the ears of commissioners looking for answers to long-established problems.

Like charitable funders, however, commissioners need to think through how they can share risk and enable a more honest and open relationship with charities to support the delivery of greater impact. There are initiatives to help commissioners think through how they can work with the voluntary sector in this radically different environment. These include the [Cabinet Office Commissioning Academy](#) (a leadership programme for public sector commissioners), the [Government Outcomes Lab](#) (a partnership to support local commissioners with the development of social impact bonds) and the [Whole Systems Commissioning](#) programme of the think tank NLGN.

The role of charitable funders and philanthropists

In this overall context, the role of charitable funders and philanthropists becomes ever more important. Funders rightly value their independence, but it is important to recognise the implications of major pressures from some of the sector's largest traditional funding sources. Some may consider it appropriate to rethink long-held views on substitution for areas previously funded by the state in the face of the changes outlined previously. For others it may mean understanding better where their efforts can be best placed in a broader funding ecosystem.

NPC has previously outlined, including in our 2009 report *Granting success*⁴⁰, that funders should ensure they get the basics right:: providing funding for an appropriate length of time; ensuring they have a clear understanding of the impact being achieved; and providing core funding where appropriate. However, in this new emerging world, funders can do more to bring their resources and skills to bear through 'funder plus' models and 'whole asset approaches' that maximise their impact.

Funder plus and whole asset approaches

'Funder plus' describes a range of funder practices designed around the idea of giving 'more than money'—activities, that is, that are additional to a grant or the grant-making process. For instance, funders can also provide additional support to help grantees build capacity, or they can seek to influence policy or attitudes in particular fields of interest by working alongside those organisations they fund.³⁹

'Whole asset' approaches are closely related. They involve funders thinking through how they can use all of their resources flexibly to achieve their mission and help their grantees, for example, through using their convening power in addition to financial grants.

Barrow Cadbury Trust: Using all its assets to serve its mission

Founded in 1920, the Barrow Cadbury Trust is an independent charitable foundation working in social justice. It sees itself as a change-maker rather than a grant-maker, creating portfolios of work to bring about structural change.

'We decide on the change we are aiming to bring about and work with partners to bring it about. For example, we wouldn't look at what can be done to alleviate poverty, but at what can be done structurally to prevent it Barrow Cadbury Trust is an endowed foundation with relatively modest resources so we have to use more than just our income to achieve our goals. We see ourselves as agents of change with access to a financial resource base, using all of our assets and resources for our mission, including having an involvement in social investment. We do a lot of things like serving on boards and advisory groups. We encourage our partner organisations and grant holders to use our boardrooms for their own meetings. We use our brand where it would be useful and our intellectual capital to strengthen the hands of others. We use everything at our disposal to help achieve a healthy civil society. This is a different model of working than seeing ourselves just as a source of money, but of course we understand that being resourced and having money is a key advantage.'

'We aim to bridge the divide between local communities and policymakers. Our strapline is the eighteenth century Quaker imperative to "speak truth to power" and so we aim to bring the voices of marginalised and disadvantaged people to be heard in the "corridors of power". The Trust works with think tanks, campaigning organisations and the media to increase informed public dialogue about some of the difficult issues of our age. We provide opportunities for grant holders to influence policymakers and also for them to come together and share learning.'

www.barrowcadbury.org.uk

Indeed, funders are much better placed than many charities to absorb some of the risks that delivery organisations face in the current environment, finding ways to enable greater sharing of risk and more honest and open conversations that lead to greater learning. This matters because conservative attitudes to risk in a changing environment, and lack of incentives to learn lessons from new approaches, may lead to opportunities being missed for innovative approaches to delivering greater impact. As NPC argued in the report *Times of change*, for grant-makers and philanthropists, negotiating the relationship with government funding is complex ‘and hard and fast rules cannot be forced’.⁴¹

In addition, some funders are looking to take a broader view, using their power differently to build networks of organisations, and influence wider systemic change beyond one organisation, helping to shift public policy to tackle structural problems.

Lankelly Chase Foundation: Championing a systems change approach

Lankelly Chase Foundation is an independent charitable trust working to bring about lasting change in the lives of people who are currently most disadvantaged in society—those who face a combination of issues, for example, in education, health, employment, income, social support and housing.

The foundation has adopted a systems change approach to addressing severe and multiple disadvantage. This collaborative, integrated approach starts with the individual as Lankelly Chase Foundation believes that ‘services don’t have to be “done to” people’. Instead, services can be ‘designed and delivered with people, working responsively and flexibly to help build their capabilities. And they don’t have to focus narrowly on the person as a “case”. They can connect people with their wider community and with opportunities to develop, move on and even have fun.’

Among other initiatives, the foundation supports Systems Changers: a programme, co-designed and delivered by the Point People, supporting frontline staff to share their insights from working within systems. The foundation also supported NPC to produce *Systems change: A guide to what it is and how to do it*.⁴²

www.lankellychase.org.uk

Some regard this more activist role played by some funders as a welcome shift and addition to the funding ecosystem for organisations seeking to focus on ‘what’s strong’ rather than ‘what’s wrong’. However, there is a valuable role in providing funding that is not focused exclusively on ‘fixing’ a particular problem, and enables greater freedom for organisations to share power and co-produce solutions with the people they work with. It is important to remember that there is also still a place for more traditional funders, giving out smaller grants to the sorts of community organisations that build social capital.

Indeed, there is a challenge for funders of all kinds in seeking to fund more asset-based working—how to define the impact being sought if the intervention relies on moving away from focusing on identified needs or problems? For example, despite the Big Lottery Fund’s new strategy to support approaches that put ‘People in the Lead’, they still state that identifying need is ‘*the starting point of any project*’. As funders develop ways to support more asset-based models, they will need to think through how their priorities are framed, and how they ask charities to engage with them.

Given the missing feedback loop in the charity model, where funders of all types essentially ‘buy’ outcomes while beneficiaries ‘receive’ services, perhaps embedding greater co-production with communities and beneficiaries to identify appropriate outcomes would enable funders of all types to direct their resources more effectively.

Social investment—an opportunity for some but not all

Social investment is an emerging area within the resource ecosystem for charities, but it is not always clear what the benefits are—or could be—for individual charities. Currently, social investment is a small source of income for the sector as a whole, but the direction of travel is towards expansion, especially with such [strong support from government](#).⁴³ Often the complexity of the infrastructure for social investment, such as setting up special delivery vehicles, and building the skills and capacity of organisations involved, means that it is a costly process.

Within social investment, social impact bonds (SIBs) are an area of major interest from the government. For some, this innovative financing model has offered greater flexibility in service delivery while enabling commissioners to outsource the risk to investors. NPC's view is that social impact bonds are generally best used to test out innovative ideas rather than funding established delivery models that may be cheaper and easier to fund in more conventional ways.

Social investment and social impact bonds (SIBs)

There are a number of different definitions for social investment. NPC defines it as '*the provision and use of repayable finance to generate social as well as financial returns*'. Within social investment, SIBs are often seen as a particularly innovative product. Their structure is complex, but SIBs are based on the idea that the public sector will pay for improved social outcomes and investors will provide capital for organisations they believe can deliver these social outcomes. If the social outcomes are realised, the public sector saves money, some of which is transferred to social investors in the form of financial returns.

Great effort is put into preparing charities and sourcing investors, but too often in the rhetoric around SIBs, the understanding of the role of commissioners is missed out. It is, in effect, a three-legged stool consisting of investors, provider organisations (usually charities or social enterprises) and commissioners. SIBs will work and grow where savings fall to either a single commissioner, such as the Essex Children on the Edge of Care SIB, or where groups of commissioners are incentivised to work together.

To date much of the commissioning has come from central government to grow the market. However, if devolution does lead to the breaking down of silos and outcomes contracts being commissioned out, then social investment could provide some answers for organisations looking to deliver these contracts without the working capital to take the upfront risk.

Social investment will not be appropriate for most charities, as it is important to bear in mind that not only does the capital need to be repaid but a financial return on the investment has to be made. In thinking through the role of charities in picking up the gaps, before entering into discussions on social investment it is critical to understand where the return will come from. Social enterprises with a strong model of generating returns may well be better placed to benefit from the growth in this market, using investment to scale their businesses.

Infrastructure in a digital age

The infrastructure challenge

In some sectors, infrastructure describes basic physical systems, such as railways and broadband, and skills and training. In the third sector, the term generally means the range of support that charities and other voluntary sector organisations receive or need, in turn '*unlocking social capital and building cohesion*' as the National Association for Voluntary and Community Action (NAVCA)'s [Independent Commission on the Future of Local Infrastructure](#) put it.

Providers of this support include local organisations (such as a Council for Voluntary Services—CVS), national bodies (such as the National Council for Voluntary Organisations—NCVO), bodies working with charities and social enterprises in specific areas (such as Clinks, which supports organisations working with offenders and their families) and independent organisations that provide a range of support (such as NPC).

We see these organisations as facilitating various functions in the sector:

- Sharing knowledge and information.
- Providing tools and guidance, such as those to support organisations to deliver impact.
- Helping people to navigate complex systems, such as political systems or grant-making processes.
- Brokering relations, for example, with volunteers.
- Representing collective interests and providing a voice for members or for the wider sector.

The NAVCA Commission's [Change for good](#) report sets out the case that '*infrastructure will [always] be needed in some forms as long as people come together to form voluntary organisations and community groups*'. Not surprisingly, providers are struggling to adapt to the current context with shrinking resources and increasingly complex demands.⁴⁴

Moving beyond capacity building...

This 'golden age of capacity building' is now a thing of the past.⁴⁵ Between 2000 and 2009, the cabinet office ran a series of capacity building programmes*, the most significant being the £215m invested in ChangeUp. Infrastructure organisations were established during this period, but spreading best practice was harder than expected.⁴⁶ Today, with the notable exception of social investment where capacity building remains well-resourced through initiatives like the [Access Foundation](#), there are pockets of funding and silos of good practice, but infrastructure is far down the list of priorities for most funders.

The Independent Commission on the Future of Local Infrastructure identified a number of ways in which local infrastructure could be reimagined to support the charity sector, crucially in moving beyond this capacity building model. It argued for '*a much leaner, enabler, broker and catalyst*' role, focused on building a bridge from where resources exist—including in the private sector—to where they are needed.⁴⁷

We believe this insight for local infrastructure can be usefully applied to other infrastructure efforts in the sector. As we have argued, charities need to think more widely, both about the resources available to deliver impact and how to tap into them. In this context, the brokering role that infrastructure can play is critical to supporting organisations to deliver the greatest possible impact.

* Defined by the National Audit Office as '*activities that help organisations to develop skills and resources so that they can achieve their objectives and serve their stakeholders more effectively*'.⁴⁸

...And beyond the 'broadcast' model

One major question facing charities is to what extent the data and digital revolutions will disrupt the third sector as they have other sectors. This could potentially hold profound implications for how the sector can reimagine the infrastructure challenge. The classic 'broadcast' model of infrastructure is where one organisation gathers knowledge and broadcasts it to many organisations, which are often its members. In this 'one-to-many' model, membership is an asset to the receiving organisation, and receipt of the knowledge of solutions to shared problems is limited to those who are part of the broadcast list.

In other sectors, we have seen how different, more networked models have been successful. For example, in the commercial sector the [open source software community](#), driven by a desire to collaborate and exchange for others' benefit, offers a strong alternative to traditional, proprietary software models.

What are the options for charities of making more of this 'many-to-many' approach? There are many assets within charities themselves, and the sector could collaborate far more effectively to share resources and scale up new ideas. These models of developing and sharing collective resources necessitate a more open relationship with other organisations, which is not always incentivised by the operating environment of charities.

Building new types of networks

A more networked model in the charity sector can enable beneficiaries to connect with each other, discuss, share, learn, organise and represent themselves collectively. In fact, there is a challenge to charities that they may not be needed much, if at all, to amplify beneficiary voices in an era when it is so easy for people to organise themselves through social networks.

However, network technologies can also enable charities to connect, share, organise, make decisions collectively and develop work and products together. Tools like [Slack](#) and [Loomio](#) help make this possible, filling the convening, brokering and organising roles that might previously have only been played by membership bodies.

For the smallest charities, off-the-shelf solutions will be affordable, like free [Google Apps](#) or the subscription-based [RunAClub](#). For large charities, a range of bespoke approaches and platforms may be used.

Catch 22: Building a platform for collaboration

Catch 22 is a social business that aims to build resilience in people and communities. The organisation is known for its collaborative approach to supporting smaller organisations and start-ups.

'At Catch22 we believe that those of us with scale and capacity have a responsibility to use our assets and networks for the "greater good". Sometimes that might mean stepping back from the spotlight and into a more supportive role—nurturing or building a platform for others who share our vision but perhaps not our resources.

Support doesn't have to be financial. There are lots of other assets we can share: infrastructure, scale, networks, contracts, credibility. It just takes imagination. We have a lot to give and we are more than happy to give it. We're currently doing this through our Fellowship, through our acquisition of Only Connect, through our incubation of Unlocked. In Liverpool, we're launching the Public Service Lab with Interserve and Big Society Capital—using our scale and balance sheet to help create sustainability for a range of great local voluntary organisations.

How does this help Catch22? Well that's the wrong question. It's not about what we get out of it. It's about us answering to our responsibilities. We have resource and experience. It's only right that we use those assets to unlock the capacity of others.'

www.catch-22.org.uk

Tapping into the power of data

In our 2013 paper [The power of data](#) we stated: '*producing a step-change in the way the sector uses data ... requires an approach that tackles barriers to supply and demand ... [and] an integrated effort.*'⁴⁹ We worked with the Ministry of Justice to set up the successful [Justice Data Lab](#), which enables charities to understand the impact of their interventions by using anonymised government data to compare the results of their work against a control group. NPC continues to make the case that far more could be done to open up the wealth of data available in the public sector through extending [the data labs model](#)⁵⁰. The possibilities of shifting major data sources in the sector, such as NCVO's UK Civil Society Almanac, to open source models could help funders, commissioners and charities to understand and target efforts much more effectively to deliver impact.

Investing in digital infrastructure

For charities and other mission-led organisations to thrive in a new world, as a sector we need to take the lead collectively and rally around a mission to build the new data and digital infrastructure that will allow knowledge to be built and shared for the benefit of all. NPC's [Digital Transformation](#) programme aims to support this mission.

A key starting point will be to invest in digital skills training. As the 2015 [Business Digital Index](#) by Lloyds Bank shows, more than half of charities (58%) lack basic digital skills, with more than 75% not investing any money in this area.⁵¹ Currently, the only entities that seem able to provide this kind of sector infrastructure are federated charities (such as the mental health charity Mind), foundations or endowed organisations (such as Nominet Trust or the innovation charity Nesta), and individual philanthropists interested in digital and data infrastructure.

Given this general lack of investment in infrastructure in the third sector, it is critical that charities are able to 'piggy back' on relevant digital and data infrastructure built in the public and private sectors. For example, as [NPC has argued](#), ensuring charities are represented in discussions about the government's new digital strategy could help broaden out discussions related to small- and medium-sized enterprises (SMEs) to support the development of digital infrastructure that charities and others can benefit from.⁵² NPC is currently developing an approach to this challenge, in the form of 'cause funds' that could invest in the infrastructure required in different sub-sectors, for example, charities working with disabled children and young people. The aim is also to build a collaborative approach involving multiple organisations, and brokering in the existing technology and expertise of the private sector.

5. BUILDING GOVERNANCE AND LEADERSHIP FIT FOR THE FUTURE

Throughout this report we have called for social sector leaders to think very differently about how they view resources and how relationships can be built to maximise them. This shift in mindset and approach calls for leadership across the sector, as well as from individual organisations.

Sector-wide leadership

As we have argued in our earlier discussion on infrastructure, there is a need for much more brokerage and convening across the sector. This might be provided by existing infrastructure bodies. Equally it might be a new role for large charities, such as Catch22, or for coalitions such as MEAM or the Richmond Group of Charities. At NPC we increasingly try to live up to this challenge in our own work and initiatives such as [Inspiring Impact](#), the [Commission on the Voluntary Sector & Ageing](#) and our [Digital Transformation programme](#). Through these programmes we help provide the new thinking, the new tools and the connections needed so that charities can adapt and thrive and continue to deliver impact. We will be taking the thinking in this report forwards through a programme of research work over the coming months to support this transformation by providing new data and evidence about the sector.

Rising to the governance and leadership challenge

To rethink what resources are available, and how to maximise them by building different relationships with beneficiaries, supporters, funders, other charities and other sectors, we will need a real commitment from boards and other leaders in charities. Trustee boards will need to understand this shifting model of developing social capital, rather than growth for growth's sake, and be prepared to relinquish some control in order to maximise the impact of these new approaches.

Both the external environment, and shifting how organisations work, undoubtedly requires different skills, particularly around digital, and attitudes to sharing power and collaborating around the boardroom. Moreover, to take advantage of the opportunities on offer, leaders need to be more responsive and prepared to take greater risks than many seem able to do at the current time.

In this changing and complex environment, it is incumbent on boards to operate governance structures that enable agile approaches and timely decision-making. It is unlikely in the modern world that the traditional model of quarterly board meetings will be enough for complex organisations or those seeking to tackle the most intractable social problems.

Some of the challenges highlighted by recent high-profile charity crises, including Kids Company, are relevant to other organisations. While regulators understandably focus on preventing catastrophic failures in governance, our focus at NPC is that more widespread governance weaknesses that hold organisations back from delivering the greatest possible impact. Problems such as an inability to recruit a diverse range of skills, boards not working collectively together and trustees not knowing how the charity is performing in terms of its mission are sadly all too common.

Of course in a sector so diverse it is important to take a proportionate approach. Those smallest organisations can only do so much, but getting the basics right will go a long way to improving their ability to thrive in the

changing environment. For larger organisations though, it may be time to rethink how we do governance altogether. NPC's forthcoming paper on governance, *It starts from the top*, will address some of these ideas in more detail.⁵³

New models of governance

The current model of voluntary trustees, which tends to attract a certain type of person (someone who is financially secure and has time on their hands), potentially [limits the base of knowledge and skills available](#) to charity boards.⁵⁴ In order to draw on a wider pool of expertise, and indeed to bring the perspectives of the people we serve into structures in a meaningful way, we urgently need other options.

Questions need to be asked about whether chief executives should be on boards to share the accountability, as is the case in other sectors, and whether trustees should be paid to allow them to dedicate sufficient time to the serious business of governing.

Such changes will not be right for all organisations, and indeed responses must be proportionate to the size and activities of specific charities. However, a model relying on occasional input from part-timers, yet who hold significant responsibility, is questionable—especially in large organisations and those dealing with particularly complex issues or people in vulnerable situations.

New types of leaders

Network leaders

This bold new world calls for leaders who can lead both networks and networked organisations. That means new skills and behaviour, aptly described by Karl Wilding, Director of Public Policy and Volunteering at NCVO as *'open, transparent, collaborative, reciprocal ... we need to set the dial at engage, not broadcast. We need to engage with different points of view, not just supporters'*.⁵⁵

Tackling the missing feedback loop

Ensuring the representation of the views and wishes of beneficiaries of charities is increasingly important, especially in an environment that demands greater transparency and responsiveness.

Governance structures can help to provide greater accountability to the people organisations exist to serve. Some organisations operate membership structures that can enable service users and supporters to exercise control over who is on the board. Other approaches include ensuring [service user representation](#) on the board itself.⁵⁶

From our work with charities, we recognise that it is essential to ensure such approaches are not tokenistic and lead to real opportunities to shape the work of the charity. Indeed if charities bring new perspectives in, particularly from those they exist to serve to ensure greater ownership of the mission, then extra care needs to be taken to create an inclusive environment where the value of these contributions will be maximised.

The questions boards need to examine

Mission vs. organisation

Ultimately the wider goal of governance must be to achieve the maximum possible impact. At their best, leaders can drive impact, safeguard the mission of the charity and tackle the challenges raised by the missing feedback loop—making sure that the views, wishes and voices of the people the organisation exists to serve are heard. However, too often we observe organisations taking decisions to perpetuate their own existence rather than the furthering of their mission. Last year's [fundraising scandals](#), which involved agencies targeting vulnerable donors

or those that opted out of a nuisance call database, showed some charities lost their way, with boards abdicating responsibility, and actions under their name did not live up to their mission.

Of course reality and statute drives trustees to value organisation over mission. However, if we are to thrive in this different world, the mindset of boards needs to change to place greater value on impact, and be more open-minded about how it can be achieved, including entering into partnership with others.

It is easy to say that organisations should act selflessly to advance their cause rather than take a decision or pursue a course that sustains their charity more securely. In the real world, however, especially in such a perilous environment, it is much harder to do. What is clear, though, is that where organisations do view themselves as part of a wider movement, they are able to share resources, ideas and skills with others in new ways. If the worst happens, there are others able to pick up the baton and continue the mission.

Some organisations have even taken the radical step of putting a time limit on their existence to ensure they do not become self-perpetuating. These typically include issue-focused campaigns such as the [International Campaign to Ban Landmines](#) and also funders that are committed to spending down their assets, such as [One Foundation](#) in Ireland. This is clearly not the right approach for every organisation, but it is an interesting example of an organisation that understands what their mission is and what success looks like.

Breast Cancer Now: A merger driven by a mission-focussed board

Breast Cancer Now was formed in 2015, following the merger of Breast Cancer Campaign and Breakthrough Breast Cancer. As accounts of the merger process show, the move was driven by the two trustee boards who shared a common vision. The respective boards and senior leaders were convinced that merging their organisations was in the best interests of women with breast cancer: *'our beneficiaries, supporters and partners have been at the heart of the decisions we've made'*.⁵⁷

The new organisation, Breast Cancer Now, has an ambition vision: *'by 2050, everyone who develops breast cancer will live'*.

www.breastcancernow.org

Clarity on role

In our consulting work, NPC often comes across organisations that lack clarity about the different roles they play and are less effective than they could be as a result. Understanding the unique role of your charity and how it fits into the wider ecology has never been more important. Among other questions we help our charity partners and clients to answer are: Is it your role to be part of the state system, delivering public services? In what way are you embedded in the community, building on assets? Are you campaigning on behalf of people, or enabling people to speak up themselves?

Appetite for risk

In facing up to this changing environment that demands greater transparency and responsiveness, it is tempting for organisations to become risk averse, focusing on survival. However, we argue that organisations trapped in survival mode can miss the chance for a transformative idea or new opportunity. A conservative attitude to risk is often worse than a calculated risk. Those organisations that fail to adapt may wither slowly on the vine.

The new thinking around maximising different resources and building new relationships, particularly about addressing power dynamics, will undoubtedly need a greater appetite for risk alongside new skills and perspectives. A traditional model of multi-year strategic plans, for example, may no longer fit such a fast-paced environment, especially where power is shared in different ways with a range of actors. Shared theories of

change across networks may enable organisations to understand how they will achieve an impact over the coming years and months, rather than following prescriptive targets developed in isolation several years ago.

However, the environment is challenging, and boards must be careful not to be reckless in their decision-making. In order to take calculated risks it is critical for boards to understand the environment in which they operate, have the best data possible on which to base decisions and ensure they have robust contingency plans in place.

Family Action: Leading change through good governance

Family Action provides practical, emotional and financial support to those who are experiencing poverty, disadvantage and social isolation across England.

In the last few years, Family Action has used good governance to deliver its 'Stronger than Ever' strategy, to diversify income and grow into new markets. To achieve this, the board recruited a new CEO with a 'change brief' and challenged and supported the organisation to achieve more. The board also developed a 'dynamic risk assessment tool', debated what entrepreneurialism meant for the organisation and fostered collective leadership and enthusiasm to bring the organisation *'back to our Victorian roots as an innovative organisation that was very much an agent of social change'*.

The charity was recognised for its approach to opportunity and risk in the [Charity Governance Awards 2016](#).

www.family-action.org.uk

Impact management

All of this change calls for a deep understanding of the impact charities have and the expectations of the people and causes they exist for. This means gathering good quality data on which to base decisions.

Good quality data on impact can be used to demonstrate value to wider audiences, and move beyond conversations about executive pay or central costs. At the same time, NPC would make the case for impact *management*—rather than just measurement. This is key to being a learning, agile organisation, and thus critical to governance in a digital age. When used well, we have seen it used to answer key questions such as:

- How do you know you are making a difference?
- How do you learn?
- How do you design and improve your processes?

6. CONCLUSIONS

This paper builds on NPC's almost 15 years' experience working and partnering with charities, social enterprises and funders. As an independent organisation, we are able to call it as we see it. We argue that:

- **The widespread economic, political and social changes affecting charities and the people, communities and causes we serve demand a range of different responses.** The changing role and shape of the state, uncertain political agenda and wider changes in attitudes, demographics and the digital revolution are among the trends that we explore in this report. These are a vital platform for creating a new operating environment in which charities and funders can continue to deliver, and even ramp up, impact.
- **There is both an opportunity and a necessity for charities to change the way they think about the resources available.** Alongside the traditional charity model that sees resources flow from society through charities to beneficiaries, we can support better use of the resources and assets that beneficiaries, communities and other sectors already have.
- **To make the most of these different resources, we need a fresh approach to relationships and the power dynamics between them.** This requires reimagining relationships with beneficiaries, supporters, funders and others across different sectors.
- **Funders can enable these new models to flourish.** Even in this challenging funding environment, there are approaches that charities can look to in order to support new models and deliver greater impact.
- **By working collectively, charities can harness the power of data and digital.** Moving from a capacity-building model to a brokering model of infrastructure, and harnessing the digital technology that enables networks to be built more easily, offers new opportunities to support charities in delivering impact.
- **Governance and leadership needs to be refocused on impact and achieving mission.** Responding to a challenging external environment, shifting to new models of infrastructure, among other things, all call for new attitudes, cultures and skills around the boardroom table.

This will play out differently depending on the size and sector of particular charities and social enterprises. No one size will fit. For larger charities, there are specific challenges around falling trust affecting fundraising, and how you respond to a more nimble, agile world where public sector decision-making increasingly happens at a sub-regional level. The opportunity exists to help tackle structural inequalities through giving people a voice, and delivering services in a way that shapes markets and benefits others beyond just consumers. However, it will require greater impetus being placed on collaboration with the people we serve, and partner organisations from within and across sectors. For smaller charities, the immediate risks to survival are stark, but the opportunity to lead the transformation to being at the heart of citizen-led social movements to deliver change is even greater.

Next steps

The next stage of our [State of the Sector programme](#) is to conduct primary research to explore whether the challenges and ideas presented here align with sector leaders, advisors and commentators. Our findings will be published later in the year and into 2017 and we will seek opportunities to debate these through roundtables and events. The final stage will bring together essays from innovative leaders on how we can transform the charity sector to continue to deliver impact for the causes and people that charities are there to serve.

Let us know if you would like to be involved in this ongoing programme and tell us what you think about the ideas set out here and what we should be exploring in future research.

Contact Patrick Murray, NPC's Head of Policy & External Affairs via Patrick.Murray@thinkNPC.org.

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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.

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