New Philanthropy Capital’s submission to the Charity Commission’s open consultation on 2018 Annual Return

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About New Philanthropy Capital (NPC)

NPC is a charity think tank and consultancy dedicated to helping funders and charities achieve the greatest impact. We have an ambitious vision: to transform the charity sector so it becomes as effective as possible at improving people’s lives and creating lasting change for the better.

As well as working with individual donor and charity clients, we encourage debate across the sector, provide thought leadership, pioneer solutions and bring people together. We identify issues that are preventing the charity sector from achieving its potential, explore ways to overcome them, and work with partners to catalyse change.

The principles behind this submission

NPC believes that the annual return is an important tool for a variety of reasons including:

- regulating a large and diverse sector
- nudging the behaviour of trustee boards and charities
- providing accurate and transparent data to inform charity’s key stakeholders—including the public, donors, service users or beneficiaries—helping build greater trust in the social sector
- providing the best source of aggregated data on the sector—it is vital for understanding what affect policy changes, or changes in the external environment, might be having more broadly

As a core principle, NPC strongly believes in transparency in the charity sector: it is only possible for stakeholders to understand how charities operate if they have access to accurate information. This is especially important in the case of the annual return, which populates the information presented on the Charity Commission site and constitutes some of the most easily accessible information about a charity not hosted on its own website. It is likely to be one of the first ports of call for stakeholders interested in a charity’s work and activities, informing individual and organisational giving.

Data collected through the annual return can be a valuable source of analysis at a sector level, helping inform policy work to improve the impact of the sector. For charities, this sector-level data can provide a clear
understanding of the context in which they are operating and enable them to develop strategies and potentially work more collaboratively with others.

**Consultation response**

As set out above, the annual return is an important part of the regulatory framework. We are pleased to see the Charity Commission place emphasis on proportionality in the proposed amendments to the annual return for 2018. Though it is necessary for the regulator to collect the right amount of data to carry out their regulatory functions and help improve public trust, we recognise that data collection should be targeted and dependent on charity size to reduce the regulatory burden for smaller charities. It must also be workable: the required information should be meaningful, and charities must realistically be able to collect it. Subject to this we are in favour of collecting more information in the annual return, including around how and where money is raised and spent.

However, in this response we focus on what could be done in the annual return to nudge charities’ behaviour in two areas in particular: greater consideration of the impact charities make, and the diversity of boards.

**Nudging charities towards achieving a greater impact**

As NPC has outlined in publications such as *It starts from the top*, boards have a critical role to play in ensuring that charities achieve the maximum possible impact that they can.¹ Currently regulation too often focuses the minds of boards solely on financial sustainability, rather than the impact the organisation has.

The Charity Commission Chief Executive Helen Stephenson recently set out how the Commission is looking for ways to support trustees to ensure their charities are effective and well run, alongside taking a risk-based regulatory approach to prevent and deal with poor practice. The annual return, as a document all charities have to engage with, could be a useful tool to steer trustees to what’s important. Indeed, NPC believes the Charity Commission can use the annual return to encourage boards to take impact more seriously.

As it stands the Charity Commission proposes to amend the annual return for 2018 to include more in-depth questions on staff salaries. This is an area of key public concern. We therefore see questions around salaries as important and valid to ask, but in isolation, it paints an incomplete picture of whether the charity has an impact.

Therefore, NPC feel that charities can be nudged by the Charity Commission towards thinking about their impact, by being asked a question like: ‘in the last financial year, have you measured or tried to understand the impact of your work?’. Charities could also be encouraged to upload an impact report or other evidence of their impact, such as an evaluation of their services or their theory of change.

This would paint a fuller picture of the effectiveness of the charity, rather than focusing solely on their expenditure or the salary of the senior staff. By promoting the concept of measuring effectiveness and impact it would encourage charities towards doing so themselves.

Of course it may be possible to ask different questions to achieve this, but the core purpose is to nudge trustees to think more about the impact their organisation has, and ensure that there is more publicly available data on the impact of charities to demonstrate the positive value of the sector.

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Nudged charities towards better diversity

Diversity on boards is currently a live debate in the sector. In 2015, 100% of charity chairs who responded to the ACEVO Pay Survey were white, 64% were male, 39% aged 65–74 and 47% involved in more than one third sector organisation. Furthermore diversity is a core component of the new Code of Governance.

In our recent State of the Sector research, Charities taking charge, while many leaders saw greater diversity as generally ‘a good thing’ we found that many charities did not equate diversity with achieving a greater impact. This is despite the fact that it can help organisations be more reflective of a changing population thereby helping to build trust, be closer to their beneficiary group, bring in requisite skills, or challenge groupthink and drive innovation.

In the same way that the annual return could encourage charities to measure and report on their impact, by asking charities about the diversity of their trustees in relation to the protected characteristics covered by the Equalities Act 2010, the Charity Commission could encourage better diversity within the charity sector. This would encourage trustees to consider diversity seriously and is a step towards achieving the necessary culture change in the sector.

Data on the charity sector to support research and analysis

At NPC we have used Charity Commission data on many occasions to research the size or make-up of a particular group of charities and trends over time. Whilst the dataset is of great value, some types of analysis are challenging, for instance identifying charities that work with a particular user group or on a particular issue, or looking at charity closures over time.

We think that some changes to the data collected could make the dataset more valuable for analysis for instance by asking charities to prioritise their answers on charity classification (what your charity sets out to do, whom your charity helps, and how your charity operates), ensuring it is clear when charities register in a new form, and providing guidance on how to treat charities that may not have filed accounts for a number of years. We appreciate this may be a difficult area to get right, but the Charity Commission could consult with users of the data to develop categories that would make it easier to track the health of a particular sub-sector over time.

Data collected by the Charity Commission is publicly available and we encourage the Charity Commission to consider making their data set more accessible and by adhering to the principles of open and standardised data. Having said this, there are aspects of the proposed data collection that should also be treated with sensitivity. We would contend that data that is intended to regulate risk does not need to be made publicly available if it risks skewing public opinion.

Encouraging collaboration

Our State of the Sector research showed that charities are thinking more about how they can achieve impact by working in partnership. Some of the changes we propose in the annual return could also support charities to work collaboratively in the following ways:

- By encouraging charities to consider their impact and effectiveness, and to publish their results, it will make it easier for charities and funders to gain from one another’s experience.

By improving the classification of charities, it will help organisations see who else is working to the same aims, making it easier to collaborate and share learning with one another.

2 Green Park, Thinking differently about difference, 2017: http://green-park.co.uk/gp-research/thinking-differently-difference/
TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy. Over the past 15 years we have worked with charities, funders, philanthropists and others, supporting them to deliver the greatest possible impact for the causes and beneficiaries they exist to serve.

NPC occupies a unique position at the nexus between charities and funders. 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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