Politicians like to talk up the charity sector and celebrate the benefits it brings to society; and so they should. When we look at charities in the UK—and there are hundreds of thousands of them, supporting causes from homeless veterans to mistreated pets—we see the generosity of the public in giving up their time and money. We also see charities campaigning and giving perspectives on policy rooted in their experience of the front line, adding to the rich set of voices that influence public opinion and policy decisions, and helping our democracy thrive.

This work on the ground is as vital as ever, which is why it is so important that politicians do more than just celebrate our charity sector. They need to support it in practical ways and promote best practice too. This is not solely the responsibility of government, of course—not least because charities often thrive on their fiercely guarded independence—but we should encourage ministers and officials to play their role in enabling charities to work better. We should do this without pleading for a return to the ‘good old days’ of mass grant funding for the sector, which we feel is naïve and unhelpful.

Our manifesto outlines a vision for what this could look like. It is focused on ways to improve the impact of the charity sector, enabling charities to most effectively realise their goals and make a lasting difference for their beneficiaries. This is the reason NPC was founded over ten years ago, and it remains our driving mission today.

Our manifesto is based on four distinct areas where government and civil society can work together to make the charity sector stronger:

- **Funding impactful local charities**, so they help the most vulnerable and work to create a **better society**.
- **Supporting innovation**, so that the most is made of limited resources.
- **Building trust in charities**, by making sure they are effective and transparent.
- **Making public services commissioning fairer**, so that charities can compete on a level playing field.

Civil society has already started to edge its way up the political agenda, with parties across the spectrum offering words of encouragement. Overall the rhetoric around charities from politicians has been positive, as it nearly always is. But with great challenges ahead, and limited money to deploy, it will take new thinking to make sure civil society is healthy and thriving post-2015. As an independent think tank with a clear vision for a thriving charity sector, this manifesto is our opportunity to explain how we can achieve this.
NPC’S PROPOSALS FOR CHANGE

Creating a better society

The government should:

• Use regulatory fines to fund the most effective local charities and so support the redress of social harm

Supporting innovation and scale

The Big Lottery Fund (BiG) should:

• Establish a new Innovation Fund, with an eventual value of over £30m, to support new ideas in the charity sector.
• Limit funding in its strategic programmes to charities that can prove their impact.

Big Society Capital (BSC) should:

• Achieve the right balance between financial and social returns.
• Promote greater transparency, publishing more on its framework for measuring and assessing impact.

Building trust

The Charity Commission should:

• Require charity trustees to report on mission and impact.
• Sanction charities that repeatedly breach regulations.
• Consult on whether funders ought to be required to publish their grant-giving data in a suitable form, with sanctions if they do not comply.

The government should:

• Establish a Data Lab in every government department to open up easy-to-use administrative data.
• Take bolder steps on sharing data.

Making commissioning fairer

The government should:

• Target awarding a *minimum* of 10% new contracts to charities.
• Define ‘social value’ for commissioners so that the Social Value Act has more bite.
• Strengthen evidence and measurement of social value with What Works Centres.
• Provide political leadership to build commissioners’ confidence.
• Build the profile of social value tendering.
• Make central government commissioners accountable to Parliament on an annual basis.
Creating a better society

UK communities are still feeling the effects of the financial crisis and the deepest recession in living memory. The charity sector has an important role to play in building society back up again. The next parliament gives us an opportunity to consider not only ‘how we do good’, but whether we are doing it as well as we could.

The government has a role to ensure that every organisation—across the private, public and charity sectors—plays its part in creating a successful economy and society. It does this partly through setting and enforcing certain rules, and penalising those that break them. When a private sector organisation acts in an unethical way and fails to follow the rules, for example, the government—and the regulators it empowers—often issues a fine. This money could go directly into the consolidated fund to pay down the deficit. However, we would like to propose an alternative. When the private sector and others fail to fulfil their duties, there is often a significant effect on communities. Charities, in their role to ‘do good’, ensure that those damaged by these failures, receive some recompense. We believe that income from any fines should therefore be made available to local charities and community groups that can have a high impact helping these vulnerable communities and families, especially organisations that are themselves struggling financially given cuts to local government budgets and other funding sources.

We recognise that the government has already moved in this direction by distributing LIBOR and FOREX trading fines, on an ad-hoc basis, to armed forces and emergency service charities. We supported the Cabinet Office in 2014 to help ensure that the £10m allocated for emergency service personnel and their families was invested fairly, equitably and sustainably. We believe this sort of approach should become general policy and be run more strategically and efficiently in terms of money distribution. This will provide a lasting legacy, helping high impact, struggling local charities and community groups continue to work with the most vulnerable in UK society.

It is important that any additional funding is not simply distributed from Westminster at the patronage of politicians or the whim of Treasury officials in Whitehall. This will not ensure money goes to the most effective charities, and it risks damaging the neutrality of the sector. Instead, funding should be distributed via UK Community Foundations and other local partners, all working with a specific mandate to identify and help charities who create the greatest impact on the ground.

NPC’s proposal

The government should use regulatory fines to fund the most effective local charities.

The practice of using income generated through regulatory fines to fund the charity sector should become the norm. Future fines for misdemeanours in highly-regulated consumer industries should be directed towards local charities and community groups with the potential to have a high impact. When regulated industries receive fines, relevant high impact local charities in that sector should receive the funds.

For example: If an energy company is fined for mis-selling, then effective local fuel poverty charities will receive the funds. Or if a payday lender is fined, then high impact local debt charities in deprived areas will receive payment.

Although the income would obviously vary from year to year, such a policy would have led to the redistribution of at least £443m over the financial year 2013/2014. While this is a very small total in Treasury terms, it would provide a lifeline to local charities—many of which operate on extremely tight budgets. Properly directed, we believe new regulatory fines could secure the future for thousands of charities that have worked throughout the recession with some of our most vulnerable citizens.
Supporting innovation and scale

The recession and fiscal austerity have affected the charity sector just as much as the public and private sectors. Charities are experiencing rising demand for their services, as the funding environment continues to become more difficult. In order to manage these growing pressures and meet their ultimate charitable goals, charities need to use technological and other innovations to develop new opportunities and more effective services and to scale up successful programmes.

However, innovation and scale demands upfront capital which is difficult to raise as it carries significant risk. The government already supports the scientific and business community in achieving and accelerating new innovations and should support innovation in the charity sector too. The next government has a crucial role to play in helping the charity sector move forward, so it achieves long-term sustainability and a more positive impact on the most vulnerable members of society. Our recent polling of public attitudes shows support for this, with 37% of people believing government has some responsibility to ensure a healthy charity sector.5

In the current financial climate, direct government investment in charities is unlikely. The Big Lottery Fund (BIG) is the largest single funder of the charity sector, allocating £670m in grant awards to over 12,000 projects in 2013/2014.6 While we do not want the government dictating to the Fund, we believe that a new government should hold discussions with BIG to explore how it can further support innovation in the sector.

NPC’s proposals

The Big Lottery Fund should establish a new Innovation Fund, based on the principles of the BIG Innovation Programme (Wales), with an eventual value of over £30m. 7

We believe that this fund should be specifically designed to support projects that test new ways of tackling emerging and existing social problems. The fund should be prepared for some of these innovations to fail and should ensure that this outcome does not affect a charity’s prospects when bidding for other BIG funding. Acknowledging and accepting the possibility of ‘failure’ would encourage more creative innovation. The lessons from this fund should be shared and used as a learning opportunity for the charity sector. It would be advisable to start with a small fund in the region of 1% of the Fund’s budget—£6.7m—rising to 5% (£33.5m) over the next parliament. The fund structure should be flexible: grants could range from £20,000 to £1m for projects running up to five years.

‘We wanted to support imaginative approaches to address unpopular or challenging issues neglected by other funders. We were prepared to take risks with our funding; recognising that some projects may fail. But others will demonstrate the success of new approaches that can be taken up by other projects working in the same field’8

Big Lottery Fund on the BIG Innovation Programme (Wales)

The Big Lottery Fund should limit funding in its strategic programmes to charities that can prove their impact.

We recognise that BIG has made significant progress in this area, but it can do more. Its strategic spending programmes makes large grants to tackle four key areas of social need, and it is essential that this money is used effectively. Quite simply, we believe that if a charity cannot prove that it is having the impact it claims, it should not receive money from the strategic programmes.
Another way that charities can secure the funds needed to innovate or scale up is to raise capital from investors looking for a financial as well as a social return. **Social investment** is a nascent market that needs time and support to develop and be understood on both the financial and social risk return axes. The creation of a wholesale bank, Big Society Capital (BSC), with £600m of funding from dormant bank accounts and the four main UK high street banks was a vital step that has enabled BSC to assume a leadership and market development role.9 Successive governments have been right to encourage the development of this market and any future government should maintain this momentum to ensure that the UK is the world leader in this area. In particular, we believe that a new government should consider how Big Society Capital can improve its leadership role.

**Big Society Capital should achieve the right balance between financial and social returns.**

One of Big Society Capital’s founding principles is self-sufficiency, which means it is under pressure to seek a financial return above covering its operating costs. Without a similar target on the social impact side, it is inevitable that, at the margin, the focus will fall on the financial returns and away from the social returns of its investments.

BSC has a central role in encouraging best practice and demonstrating the importance of social value to a sometimes sceptical social investment market. For this reason, we believe that social returns must be at the heart of BSC’s investment decisions, and any impediment to this—including the possibility that the financial return target is too high—should be tackled.

**Big Society Capital should promote greater transparency.**

Another of Big Society Capital’s founding principles is transparency and, while BSC has done a great deal in this area, we believe it can go further—publishing its framework for measuring and assessing the impact of its funds and its own impact as an organisation, including its investment process and financial and social return requirements. This will enable other market participants to benchmark their own processes against best practice, and encourage the development of shared outcome measures. BSC is in a position to help the rest of the sector learn from its work and should maximise this opportunity.

We also believe the **government has a role to play in supporting innovation in the charity sector** more directly, for example, by recognising it in commissioning and procurement processes and supporting the development of new ways of working (see *Making commissioning fairer* on page 8 for more detail).
Building trust

As a core principle, we believe strongly in transparency in the charity sector. It is right that the public, potential donors, users and beneficiaries can see how charities operate. Transparency is also crucial to both measuring and increasing impact. Some membership organisations within the sector take a different stance and are fearful that information will be used to attack charities unfairly. This is an understandable concern, but we believe nonetheless that transparency is the right approach in the long run.

Transparency should apply to income and expenditure, and we believe it should also apply to data around what charities actually achieve: their impact. We set this out in our response to the recent Charity Commission consultation, outlining five fair and sensible rules that all data requests should adhere to and arguing that this openness should also apply to government and the private sector.\(^\text{10}\)

Data access and data sharing are also critical elements of this agenda. This is a controversial area, not least due to privacy concerns, but it can be enormously helpful to charities and their beneficiaries. The charity sector should not duck the challenge of arguing for it.

NPC’s proposals

**The Charity Commission should require charity trustees to report on mission and impact.**

Strong governance is important for any organisation, whether it is a FTSE100 or a small charity. However, in the charity sector, the regulations direct trustees to focus more on the survival of the charity than on achieving the charity’s mission. We believe the language of the Charity Commission’s trustee obligations should be re-drafted to focus on acting less in the interests of the charity and its survival, and more in the interests of its charitable mission and the beneficiaries it exists to help.

We believe trustees should be required to report each year on the impact of the organisation in achieving its core mission and how it plans to improve. This would bring a focus on impact to the very top, acting as a powerful nudge to more impact-driven behaviour. Such information could form an additional element of the financial reporting each charity has to submit to the Charity Commission. The right to revoke the charitable status of organisations that are repeatedly unable to demonstrate any social impact related to its core mission is a policy the Charity Commission might also consider.

**The Charity Commission should sanction charities that repeatedly breach regulations.**

While we welcome the Charity Commission’s recent removal of charities from the register that are either inactive or have failed to file their annual returns, we think it could be stricter still and make clearer the sanctions applicable for charities that miss the statutory deadlines.\(^\text{11}\) The limited action taken up until now has undermined the powers of the regulator and given little incentive for charities to abide by the rules and make themselves accountable for how they spend donors’ money. Late filing is very often an indicator that all is not well with a charity. We believe that organisations that are more than six months late in filing accounts with the Charity Commission should, at the very least, have this information flagged on the front page of the Commission’s website, alongside a ‘health warning’ alerting potential donors and supporters to the charity’s failings.

**The Charity Commission should consult on whether funders ought to be required to publish their grant-giving data in a suitable form, with sanctions if they do not comply.**

We believe that philanthropic funders and grant-making foundations should be required to publish their grant-giving data in an accessible, open form (360 giving provides a useful example\(^\text{12}\)). Access to this data would allow funders to make more strategic funding decisions, leading to better, high impact, outcomes. We therefore
recommend that the Charity Commission consults on whether this should be a requirement and if organisations that consistently fail to comply should be subject to sanctions.

**The government should establish a Data Lab in every government department to open up easy-to-use administrative data.**

If charities had access to government-held administrative data, they could better assess what works well, track the progress of clients, and continually improve the ways in which they deliver their services. We proposed the concept for\(^\text{13}^\), and supported the development of, the first Data Lab—the Justice Data Lab\(^\text{14}^\)—launched by the Ministry of Justice in April 2013. This enables organisations working in criminal justice to compare the reoffending rates of their service users with those of a matched comparison group, so they can track progress and understand and prove what works and what does not.

We believe the Data Labs approach has great potential in other areas of government policy, including health, education and employment.\(^\text{15}^\) A key element of the approach is that results are shared across the sector to build a body of evidence for what works to achieve particular outcomes, leading to better informed decision making. The government should therefore require every department to establish a Data Lab to open up its administrative data—or publish a paper for examination by the National Audit Office and Public Accounts Committee, as well as the public, explaining why this is not possible.

**The government should take bolder steps on sharing data.**

Data sharing is essential if we are to better understand how to target resources to tackle social problems and ultimately improve lives. This is deeply controversial: the public has well-founded fears about the risks of data being misused, and this causes some individuals to hold back information because they are worried it may be shared. But we believe the government, and especially the charity sector—which benefits from higher levels of public trust—must be bolder about arguing for this agenda.

There are many ways that data can be used by charities to improve and help more people—always with robust safeguards in place and with a focus on public good, not private profit. We will never see a radical transformation in the way charities address social problems without taking this step.

**For example:** Staff at some specialist charities will benefit from using anonymous, administrative data collected from public bodies and other charities to track the trends that give rise to certain problems; for example, whether troubled families are more likely to visit their GP, drop in and out of work, or seek help from other organisations.

Individuals cannot be identified from this sort of data sharing, but it would allow charities and other organisations to identify ways to improve their services for the benefit of the vulnerable people they work with on a daily basis. This should go hand-in-hand with individuals’ rights to request personal data: there should be a stronger individual right to see and understand how data on them is being collected, processed, analysed and reported. There should also be clear permissions at the time of data collection by the data controller.

We would propose starting with limited pilots between named charities, government departments and public bodies, to test the appetite for greater data sharing and to clearly demonstrate the good that can result.
Making commissioning fairer

The public service reform agenda promised a radical shake up of the way that public services are commissioned and delivered—opening up contracts to social sector organisations. However, the reality is that this has not been as effective as it should have been. Many charities have found it difficult to compete for contracts for a variety of reasons. Without reforming the design of public services contracts, as well as the bidding process and feedback systems, it will remain extremely difficult for charities interested in this area to maximise their potential. We need to improve the process and allow charities to compete on a level playing field.

We welcome the Social Value Act 2012 and the framework it provides for commissioners to consider how the services they contract can offer additional benefits to society. The Act has the potential to drive a step change in innovation and co-development with users, which is required if the government is to achieve improvements in public services demanded by the public, alongside deep budget cuts.

It is disappointing, therefore, that there has not been more evidence of the impact of the Act on commissioning activity. However, the recent Social Value Act review presents an opportunity to reinvigorate the discussion on the role that commissioning plays in stimulating new ways of delivering public service and capturing the wider benefits to the public of this approach. Some of these proposals come from our response to the Social Value Act consultation.

NPC’s proposals

The government should target awarding a minimum of 10% new contracts to charities.

We believe that the next government should design contracts in a way that attracts more competitive bids from the charity sector, with the aim of awarding a minimum of 10% of new contracts to charities and not-for-profit organisations as the prime provider. It should also encourage other public sector commissioners, such as local government and the clinical commissioning groups (CCGs), to do the same.

Such a re-design might include: longer-term contracts; greater time for commissioners and interested parties to liaise in the pre-procurement phase by exploiting the flexibilities in the new EU regulations; and a more sensible design of payment-by-results contracts, so that charities providing services to a prime contractor are not landed with the greatest risk for the least stable income as a result.

To scrutinise these changes, we believe commissioners should be required to publish an annual report showing:

- data on the percentage of contracts going to charities, and the number acting as prime contractors; and
- what steps they are taking in service and contract design to ensure that at least 10% of contracts are being granted to the charity sector.

Note that this proposal is different from reserving 10% of contracts exclusively for charities to bid for, which would risk putting the organisations before the beneficiaries. It does not mean using 10% as a maximum either; in some areas of work, the proportion of charity contracts already exceeds this, while in other areas there is no reason for the proportion to grow beyond 10%.

We believe that the 10% target we propose would bring two immediate benefits to the commissioning system. Where charities have resources that make them particularly well-suited to providing a service—a network and high levels of trust in a local area, for example—contracts should be designed to ensure that they have a fair chance of delivering that service. The target would also create a benchmark against which to measure the quality of services delivered by charities against those delivered by other providers, so that future commissioning decisions are informed by more robust and reliable data.
The government should define ‘social value’ for commissioners so that the Social Value Act has more bite.

‘Social value’ is a term that is not well understood by commissioners, and increasing this understanding could lead to greater use of the provisions outlined in the Social Value Act. We believe the government should develop and publish a fuller definition of social value and promote this to commissioners. This should include economic, social and environmental well-being—which means an intervention would not, for example, just consider its impact in terms of creating more local jobs, but also the longer-term impacts, such as achieving a reduction in crime or improved community cohesion. The guidance should contain examples of where these outcomes have been measured effectively as well as evidence and data that can be used to measure social value.

The government should consider how it already uses established economic evaluation vehicles to be part of this process. This is becoming an increasingly accepted method for calculating the financial benefits of those elements that are not usually part of the market. The Cabinet Office should bring together experts in this field to determine whether there are standard calculations that could be developed and circulated to commissioners to help them better assess social value within bids, and counter their natural risk aversion.

The government should strengthen evidence and measurement of social value with What Works Centres.

What Works Centres have been set up around specific policy areas to ensure that high-quality evidence shapes decision-making. We believe the What Works Centres should also consider how they can contribute to the commissioning agenda by assessing approaches to measuring social value and strengthening the evidence standards and data around outcomes.

The publication of government data and the development of further Data Labs would also contribute significantly to the evidence base for social impact. A working group of commissioners, social enterprises, charities and relevant government officials and agencies should be established to explore this, leading to practical guidance and tools that can be used by commissioners and those bidding for public sector contracts to better measure social value.

The government should provide leadership to build commissioners’ confidence.

The government has committed to the inclusion of the Social Value Act in the Cabinet Office’s new Commissioning Academy, which is welcome as it aims to improve commissioning skills across the government. However, improving the skills of commissioners in recognising social value will not be sufficient if more senior officials are not committed to the approach. It is going to require political leadership from government ministers, heads of service and local government leaders to make a significant change. The government should put pressure on these individuals to ask the social value question whenever their department or organisation is planning a tender. Creating this greater visibility in pre-procurement would set the tone for responses during the tender phase.

The government should build the profile of social value tendering.

It is currently difficult to identify from government departments and the NHS which major contracts have used the Social Value Act to inform their commissioning and increase the additional benefits of the services procured. This does not mean it has not happened, but it is not easy to find national examples. We believe it is important that greater effort is made to publicise the additional social value of contracts tendered using the Social Value Act. The government should build this profile by publishing case studies about contracts that have used the Act, particularly those from Whitehall.
The government should make central government commissioners accountable to Parliament on an annual basis.

We believe commissioning departments across government should have an obligation to report annually on how it has attempted to improve the commissioning process to allow charities to better compete with private sector providers. The Public Accounts Committee (PAC) should be educated on the Social Value Act and encouraged to run a review on the use of the Act. Failing a full review, the PAC should ask questions on social value considerations when conducting their reviews of public sector contracts.
Additional proposals

In addition to those already included in this manifesto, we believe that the following policy proposals should be considered by the next government.

**Large businesses should have an obligation to report on their social impact.**

Businesses have a vital role to play in local communities. Many already support those who live in the area in which they work through a number of local initiatives. However, many simply encourage employees to volunteer for one day per year for a charitable cause of their choice. We believe it should be easier for businesses to understand what is required of them in terms of social value, so they can provide more appropriate and strategically inspired methods of achieving it. A simple change to corporate law would allow a business to demonstrate clearly how it is using its skills and knowledge to support the communities in which it operates in a meaningful way.

**Reinvigorate the Office for Civil Society.**

The Office for Civil Society has failed to be as influential across Whitehall as the charity sector needs it to be. It must promote the sector across other government departments and ensure it is consulted on proposals such as tax breaks for giving, the Work Programme and commissioning projects. We believe the Office of Civil Society should have an explicit objective to increase innovation and efficiency within the social sector. This should include a responsibility for the Minister to report back to Parliament on progress on an annual basis.

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**About NPC**

NPC is registered charity that works as both a consultancy and an independent think tank for the charity sector, committed to helping charities and funders achieve the greatest impact.

Led by Chief Executive Dan Corry, in its 14 years NPC has:

- Provided direct strategic advice and training on strategy, impact measurement, social investment and governance to over 200 charities from a range of sectors—include health, criminal justice, domestic violence and employment.
- Operated as a think tank, using our unique proximity to charities, funders and the government as a way to take an independent and authoritative view on sector issues—producing thought pieces, convening roundtables and holding topical events as a way to identify major challenges and opportunities in the sector and encourage the development of solutions and new approaches.
- Published more than 220 reports, including in-depth research exploring the challenges faced by individual sectors—from health to financial exclusion—as well as practical guidance to encourage the adoption of pioneering methods in impact measurement, the use of data and charity analysis.
- Advised more than 300 donors and funders on how to create more impact with their giving, drawing on our independent research, knowledge of social issues and charity analysis methodology. In 2013, we influenced £22m of donations and grants through this advice.
- Changed the landscape of the sector by developing and growing sector-wide initiatives, such as the Inspiring Impact programme and the Justice Data Lab.
References

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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.