



Select Committee on Charities

Corrected oral evidence: Charities

Tuesday 12 July 2016

5 pm

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Members present: Baroness Scott of Needham Market (Chairman); Baroness Barker; Lord Bichard; Lord Chadlington; Lord Foulkes of Cumnock; Baroness Gale; Lord Harries of Pentregarth; Baroness Jenkin of Kennington; Lord Lupton; Lord Rooker; Baroness Stedman-Scott

Evidence Session No. 3

Heard in Public

Questions 30 – 40

Witnesses

Andrew O'Brien, Head of Policy and Engagement, Charity Finance Group, and Richard Jenkins, Head of Policy, Association of Charitable Foundations

Examination of Witnesses

Andrew O'Brien and Richard Jenkins

- Q30 **The Chairman:** Good afternoon. May I welcome to the Committee to give evidence Richard Jenkins, head of policy at the Association of Charitable Foundations, and Andrew O'Brien, head of policy and engagement at the Charity Finance Group? I am Baroness Scott of Needham Market and I am chairing this session only. I have a few points on housekeeping, which you may have heard already if you were here at the beginning of the other session. This is a public session of the Committee; it is being broadcast live and we will take a full transcript of the session, which we will make available to you in due course in case there are any minor corrections needed. The transcript will be publicly available. If after the session there are any points you would like to amplify or clarify, please feel free to send them, and to send us any further information. I would like to declare that our specialist adviser, Rosie Chapman, is a trustee of the Charity Finance Group. To start with, I would like each of you to say a little about your organisation and give us a flavour of what you see as the key challenges facing it at the moment, and then we will take it from there.

Andrew O'Brien: My name is Andrew O'Brien, head of policy and engagement at the Charity Finance Group. The group was set up in 1987 to support financial management and good practice in the charity sector. We have about 1,400 members and serve them primarily through delivering training, conferences and events. We do a number of publications each year on key issues, such as risk management and fraud, to support their work. We also try to influence Government to ensure they understand the issues that charity finance professionals and charities more broadly are facing.

As to the issues our members face, every year we run a survey with PwC and the Institute of Fundraising called Managing in the New Normal. In the last survey, the three key issues that came up were: first, the fall in public sector grant income and the competitiveness around it; secondly, reputational issues facing the charities sector; and, thirdly, increased demand for services. Most organisations are responding by continuing to diversify their income. Almost three-quarters are looking to find new income sources, primarily through increasing fundraising or intensifying the amount of fundraising they are doing already.

The issue of demand has been alluded to previously. About 70% of respondents to our survey said they had seen an increase in demand. That is quite consistent with the surveys we have done in the past few years. To put it into context, when we first did the survey, in 2008, only about 30% said they saw an increase in demand, so we have seen quite a significant amount of pressure. Volatility, reputational issues and increase in demand would be our top three areas.

Richard Jenkins: I am Richard Jenkins, head of policy at the Association of Charitable Foundations. We have about 320 members of charitable foundations that are very plural in the way they work and the things they fund, but the common denominator is that they are generally grant-

makers and have a stable source of income, either ongoing gifts—perhaps from a corporate entity—or an endowment that has been gifted by a philanthropist. They work in lots of different ways: building up evidence bases, convening conversations and groups, and sometimes developing and delivering their own programmes. Those are the common denominators. Like the rest of the charity sector—because they are themselves charities—the same two factors apply: the rock and the hard place of reduced resources and elevated need.

Because foundations are grant-makers they have another feedback loop with all the organisations that apply to them for grants and support, and that gives us a direct line to market intelligence on what is happening with a vast range of charities. Over the past few years those organisations similarly share the dilemma of increased need and reduced resources, but we have a bit more intelligence on what is behind that and how it feels. It is clear that, since the credit crunch, charities have been spending sacrificially from their own resources and reserves. I can back up some research NCVO did last year by further intelligence we have received. Charities have not been spending on their own staff training and governance away-days because they have been putting the money into keeping staff posts in place for front-line services. I was involved in some research—it has not been published yet, but we can share the findings—into capital funding for voluntary organisations. That has dropped over the last few years as people have been bidding instead for revenue costs to support projects. It means that organisations have been pressing pause on urgent repairs to buildings or refurbishment. They have literally not been repairing the roof just to keep the show on the road.

Even more tellingly perhaps, in some research two years ago, one of our members, Garfield Weston—a very big grant-maker—was shocked to discover that a grant programme it had developed for the north-east of England to backfill the gap left by the closure of Northern Rock, a substantial funder in an area of the country that really needs it, was undersubscribed. When it went to find out what was going on, for example whether it had designed the programme wrongly, it discovered that the organisations it was reaching out to—small charities—did not have the internal capacity even to fill in an application form. They have been spending sacrificially their own resources in a way that probably leaves their capacity weakened at the minute, with the risk that it is permanently weakened.

Finally, organisations have a great deal of complexity and they need to adapt to a new environment, but they do not have the time to think or even to reach out to find support, and the sources of support are being further reduced. It is a very dangerous time for the voluntary sector at the minute. It is an extremely resourceful sector but not a very well-resourced sector at the minute. We ought not to trust its resourcefulness in being able always to keep the show on the road while not fixing the roof.

The Chairman: Thank you. That leads us nicely to the next question.

Q31 **Baroness Stedman-Scott:** How do you foresee the income profile of

charities changing over the coming years? Do you see charities becoming sustainable, or how do you think they could become sustainable?

Andrew O'Brien: As has been alluded to previously, the big change we have seen in the sector's funding has been the shift from voluntary to earned income. All the evidence seems to suggest that that is the case. From 2003-04 to 2013-14, which is the last year for which we have data, earned income has effectively doubled in the sector. It has grown to almost £25 billion a year, whereas voluntary income has not grown; it was about £1 billion in the same period. There is a huge shift in the way the sector generates its resources. Whether that shift to earned income is more sustainable is an interesting question in itself. The capacity crunch Richard was talking about is in part because it is difficult for charities to generate from earned income the surpluses they require to fund the governance, leadership and development that is absolutely critical. To give an example, we heard about the shift between grants and contracts in public sector income. Every two years CFG uses a benchmarking tool called Finance Count. One of the things we ask about is the surplus or extra profitability they are generating on service delivery in the public sector. Most charities are breaking even. That is the average, but some of the largest organisations are losing 11% in those contracts. Obviously, that cost has to come from somewhere, as Richard alluded to, and it tends to come from cutting back on investing in your own organisation and developing your own staff, leadership and governance. We need to look at that funding mix and see whether it is sustainable. Our concern is that at the moment it is not, and it is compounding some of the problems we have seen in the sector so far.

Richard Jenkins: Charitable foundations provide £2.5 billion a year in the form of grants to the voluntary sector and to universities, medical research and a range of other public benefit causes. A couple of years ago that exceeded the amount in grants that central government was making to the voluntary sector of £2.2 billion, so the dial has shifted. On the one hand, charitable foundations look like quite an important source of income, but, as Karl correctly mentioned earlier, it is pretty much constrained. We have evidence that, following the credit crunch, foundations continued to spend at the same rate from their investments for several years after they saw the value of their assets dip, but they cannot keep spending capital, because they will put themselves out of business; and in some cases they must not go out of business, even if in other cases it is quite appropriate to go hell for leather for one particular charitable object.

One of the biggest shifts in the income of the charities sector is from grant to contract. A lot of smaller organisations benefited hugely from local authority grant schemes that might have disappeared or been badged up in other ways. I question the usefulness, effectiveness and even the efficiency of that for commissioners themselves. One thing that strikes me about what charitable foundation grants can do is that they might not be big in scale, but they are almost unique in their currency. Grant can do things that other forms of funding cannot. It offers flexibility and a bit of freedom for innovation, not big innovation with a capital "I" but the fact that you have agreed to do something for a number of years,

the world has changed—it is changing every week or every day at the minute—and you have to redesign the boat midstream. A grant allows you to do that in a way that a contract does not. There is a question as to whether the capacity crunch and the space and flexibility to adapt that charities need might somehow be answered not necessarily by changing the scale of funding but by changing the currency of it.

Q32 Lord Foulkes of Cumnock: Where does the pressure to change from grant to contract funding come from? Are you doing anything to resist it?

Richard Jenkins: It is a long story of government commissioning, is it not? I was a civil servant in the Office of the Third Sector, the predecessor unit to the Office for Civil Society. Back in 2002, I was deputy director in charge of encouraging the third sector into public service delivery. There was a lot of money to go with that, as people know, to re-engineer the voluntary sector to step up to the plate, but I think it was government seeing the voluntary sector, understanding a little about what it contributed to society and trying to recruit it and shape it to its own ends.

Lord Foulkes of Cumnock: It starts by getting the voluntary sector to do things that are appropriate, but is there not a danger that the sector then moves to doing things that replace services that ought to be provided by the public sector?

Richard Jenkins: That is certainly a debate, and it has heightened since 2008. There used to be the principle of additionality. It was certainly written into the constitution of the Big Lottery that it was going to do things that were additional to the state. It became a de facto rule of thumb for a lot of charitable foundations, but, as one of our directors observed recently, we used to be the icing on the cake, but now for a lot of organisations we are the cake.

Those questions are all up for debate, and it might be one of the things the Committee wants to explore further in its call for formal evidence. I would not give you a take on that now, but I highlight the point that one of the perils is that government is always at risk of killing the thing it loves. It sees something great going on and it wants to support it. It sends in the civil servants—I speak as an ex-civil servant—and it gets packaged, regulated, retranslated and transposed into terms that government can understand, and somehow in the process it loses sight of the thing it is trying to do.

Andrew O'Brien: You ask why we have seen the shift to contracts. In part, there is a perception that they are more rigorous, they are harder and you get better value for money, which is simply not the case when it comes to the evidence. Sometimes contracts are appropriate, sometimes they are not, and we need to re-educate commissioners to understand when a contract works and when a grant works. For example, the Charity Finance Group, the Directory of Social Change, the Small Charities Coalition, NAVCA, Children England and Lloyds Bank Foundation have set up Grants for Good to try to educate commissioners again about the value of grants and when they can be appropriate. It is a lot about myth-busting as well. I heard one commissioner say it was illegal to give a

grant, which is simply not the case. There is a big ignorance barrier we need to cross.

Lord Foulkes of Cumnock: When you are bidding for contracts, sometimes the private sector is bidding for the same ones.

Andrew O'Brien: Correct.

The Chairman: Lord Lupton has a question for Richard.

Q33 **Lord Lupton:** I should disclose my particular interest in this question as the chairman of my family's relatively newly established charitable foundation. How do your members, charitable foundations and grant-making trusts, ensure they get value for money? How is it achieved? How do they specify and measure outcomes? Is there a better way of doing that? For example, would it be better if they were giving grants over a period of years so that they can measure over that time rather than measuring just once in the lifetime of the grant-making institution?

Richard Jenkins: Earlier, Karl mentioned Inspiring Impact, which is a collaboration by a number of different umbrella bodies: NCVO, New Philanthropy Capital, ACF and others. It is certainly promoting intelligent ways of measuring outcomes. It is increasingly important that charities have a sense of what they are doing and what difference they are making. There has been a very active debate in the foundation sector because, quite rightly, charities are critical of funders who impose too many performance measurements, which is what it can look and feel like to the recipient of the grant from the funder. It is not helpful if different funders have different outcomes in mind for that organisation. The funding ultimately has to be about enabling the organisation to make the biggest difference it can, and there is a risk that an over-engineered approach to outcome measurement can get in the way and hinder it rather than help.

The counterpoint that is beginning to emerge, as Andrew was saying, is getting a differentiated picture of what is right, when. If you know what the evidence is and, fairly predictably, what difference you are trying to make in a stable environment with a particular constituency where you know what works, then outcome measures are best. But a lot of organisations are not operating in that environment. They are operating in a complex environment where the drivers of change are like enormous tides, and they are one boat among many in choppy waters. They have to navigate their way in a very uncertain area, and the only sure navigational point is their beneficiaries. In that case, what I find from ACF members is that the emphasis in getting the best result is on pre-selection—selecting the right organisations that you can trust and have confidence in to collaborate successfully with others, that never lose sight of the beneficiaries and, when things get difficult, are able to reinvent the wheel midjourney, perhaps while careering downhill. Trust needs to be differentiated, too. It is not just having a good, warm fuzzy feeling about everything, but being able to discriminate between organisations you can trust and those you cannot. We have a conference on this. Baroness O'Neill, a great expert on public trust, is coming to talk about it. It is not that difficult; it is three things. You have to be assured of someone's

competence, reliability and honesty. I spoke to someone who had set up a foundation and was asking about impact. I said, "Is that very important to you?" He said, "It is absolutely important to me". This was someone who had also run a huge business. He said it was as important as it is in running a business. I said, "How do you achieve it?", and he said, "Well, to give you an example, we back a community transport project in the village where I live in Scotland. The woman is brilliant; we have known her for years and she can do anything, so I am completely confident in her ability to deliver it".

- Q34 **Lord Rooker:** My question is aimed at Andrew, but I would like to put a brief one to Richard about something he said earlier about the Northern Rock Foundation. Were you implying that the Northern Rock Foundation was such a proactive body in respect of the small charities it was helping that it was going out to assist them on the basis that they were incapable? You said the new funders said that small charities were incapable of filling in an application form. Someone must have been doing that in the Northern Rock days. Was it a foundation reaching out rather than simply waiting for applications to come in?

Richard Jenkins: That is definitely a partial answer. Two things happened at once. Northern Rock was known, trusted and very present in the north-east. When it went out of business, people perhaps did not know or understand Garfield Weston, but at the same time, the organisations themselves suffered a capacity crunch, so they might have lost the employee who normally did the fundraising.

Lord Rooker: Andrew, I have a question on social investment, about which I am in some ways fairly ignorant. I read about it. Can you fill us in on what you see as the role and potential of social investment? What is the difference in interest rates between social investment and high street banks? I presume there has to be a difference; otherwise, there would not be a market, as it were. Charities have to feel fairly confident that they can cope with that different funding scenario.

Andrew O'Brien: It is important to put social investment in context. Charities have been borrowing money to invest in delivering their services for centuries. A lot of charities have been doing that, and the sector was borrowing consistently between £1 billion and £2 billion over the 10 years before Ministers discovered social investment and decided they wanted to make it a term. We have to be realistic about what it can achieve. It is probably limited. Big Society Capital itself has said it is not for everybody. The vast majority of the sector is working in areas of market failure—that is why charities are there—so the idea that you can commercialise those services and try to generate a surplus that could pay an investor is in most cases quite limited.

Social investors are very keen on funding services that directly deliver something in terms of social impact, which again makes it even more challenging. A lot of charities would take on investment to develop their trading arm, a fundraising operation or something else that generated a sustainable income, and they would use that income in the future to deliver their services. It is not necessarily coming on the sector's terms; it

is coming in the way social investors want it to. You have to be clear about that. The demand simply has not been there so far either. That is why the Government had to set up the Access Foundation, for example, to help small and medium-size charities get access to social investment. That is an implicit admission that they have failed so far to make this a mass market that most charities can access.

One crucial issue, which Rebecca from Small Charities Coalition highlighted, is about skills. In our survey, *Managing the New Normal*, 85% of respondents said they did not have the skills to access social investment. As a first principle, it cannot get to enough organisations until enough organisations have the skills in place. It comes back to the sector, government and everybody else who is interested focusing on the bread-and-butter issues of financial capability and governance. If we get those right, we will be able to use social investment effectively. If we do not get them right, all the money sitting in Big Society Capital and all those other places will not make a blind bit of difference, because no one will access it and it will not have any impact.

The question of interest rates is very interesting. Nobody knows what the situation is on the ground because all the products are different. We talk about transparency in charities. The social investment market is not itself particularly transparent, so not many people know what is going on. Generally speaking, the members I have spoken to who have engaged with it find it frightfully expensive. It is more expensive than going to a high street bank, and that creates an issue. Why would you go to a social investor when you can get the money cheaper elsewhere?

That brings us to the question of the intentions and motivations behind social investment. When I first started looking into that space, I thought private investors assumed they would not make the same level of return they would get in the private sector but were doing it for social good reasons, but it seems now that we are not only trying to deliver very complex services; they want to make even more money on them. That is a tension we need to resolve fairly quickly. In context, it is a very interesting area, and it can work in some instances, but it is going to be limited and we need to focus on the bread-and-butter issues of financial capability if it is to have any long-term impact at all.

Richard Jenkins: To give an investor perspective, charitable foundations have been an important backer of social investment. They were one of the early market makers, and they have been significant in the field. In 2013, we did some research. They had committed £100 million in social investments to organisations, of which about half has now been drawn down. More and more foundations are joining the field.

One of the phrases to emerge among the community of funders and investors is "Different tools in the toolbox". There is no one tool that is better; you have to look at the job you are doing. Grant, contract and, sitting alongside other interventions, social investment all have their time and place. Foundations are filling an almost unique gap for charities, which is the relatively low-level unsecured lending of between £50K and £100K over about seven years that high street banks will not give, and

even Big Society Capital is not quite able to deliver, but it is a necessary injection that allows an organisation to turbocharge itself. It is a very simple proposition: social investment will work only if there is a reliable ongoing source of surplus income. It is debt; it is not just free money. The organisation needs to be confident that it can pay it back.

Foundations have been very engaged and are working alongside government, BSC and the Access Foundation, which is a member of ACF. Critically, along the lines Andrew suggested, because foundations are coming at it with the social mission—the social benefit—predominant, from their perspective something odd is happening. For those who are accessing lending, interest rates are high, and from the investor perspective the returns are very low. Where is it going in between? Because potentially quite complex products are being developed, there are very high fees associated with them, which is why for more and more foundations the first product of choice is a regular loan or repayable grant.

The Chairman: We may come back to you on this, because it is a matter in which the Committee is interested.

Andrew O'Brien: I forgot to mention that public service reform and social investment have to go hand in hand. As Richard said, government has forgotten the income streams to pay for social investment and focused merely on the supply of social investment. This was all prefaced by the idea that charities would access and win more contracts and grants to pay back the investment. They have to reform and make it a success.

Q35 Lord Chadlington: I am interested in the points you have just been talking about. How do you feel the sector relates to government and the Charity Commission? It seems to fall into two areas. One is about how the Government, and you, ensure the health of the performance of the sector, and the other is where you have feedbacks, like the cost of money. How do you get that information? Where is the relationship between the sector and government and the Charity Commission?

Richard Jenkins: The relationship has been changing. As Asheem pointed out, previously government saw themselves as the curator and champion of the charity sector, the third sector, civil society, or whatever it was that year. That has shifted. It is a much more instrumental view. We find that the feedback loops have reduced. Government has reduced its strategic funding programmes, and there are fewer strategic partners around. At a personal level, we have very good relations with a lot of officials in government, but our biggest problem is ignorance. It is not that government intends to do harm; it does it inadvertently, sometimes when it is trying to do good, but often when it is trying to do something else altogether. For example, there is an international tax transparency regime, which we think is fantastic in itself. Civil society has campaigned for tax transparency. However, it suddenly applies to charitable trusts, so small funders have to collect the same kind of information about their grants as banks collect about their account holders. There is no upstream voice, and government has lost a lot of its know-how and institutional memory, not just in relation to the charities sector.

In relation to the commission, to sketch out the terms of the debate, it is correct that the commission has moved from being a champion and cheerleader of the sector to being the policeman. I think you are picking up that there is anxiety about the way that is happening and a feeling that it is not quite appropriately calibrated. What people may not realise—perhaps you do—is that charity trustees want to get it right, and they are frightened about getting it wrong. They are terrified of the commission coming to call. Maybe the model for the commission, if it wants to be the police force for the sector, which is not inappropriate, is community policing, not a fully weaponised enforcement agency. I think it is tending towards the latter. It has quite a lot of new powers. We are quite worried about what is called its warning power. From the commission's point of view, it is a yellow card: "You have done something wrong and we are going to give you a warning. It's a stiff letter, but we are going to put it on the website". From the organisation's point of view, that is the death of its reputation. One of the things a charitable foundation will do for its due diligence is to look at the organisation. Does it exist? Has it submitted its accounts on time? What is its record? If the Charity Commission has a warning against that organisation—it could be for something that is not even worth a statutory inquiry, or a first misdemeanour, or the chance of one—people will move on and fund the next organisation. That is inevitable.

I think that the commission is perhaps a lightning conductor for anxiety in society, and is perhaps channelling that, without too much mediation, to the sector. With that degree of voltage, particularly around reputation, organisations are very anxious. The fact is that, at the minute, we need, in some cases, charities that are very risky, provocative and subversive. For some of my members, their reputation is all those things. It should be. We should not say that their being risky and provocative somehow calls into question the reputation of the whole sector. The risk is that the commission becomes over-attuned to any form of criticism of the charities sector, for whatever reason, and tries to repackage it into something that it is not.

Andrew O'Brien: Richard has very eloquently laid out the issues. As to the Government's view, I come back to the point about instrumentalism. We would all agree that charity is one of the signals of a civilised society in a vibrant democracy and in British culture. We are not here necessarily to achieve government policy aims; we are a solution and a potential partner to help them achieve some of those, and they should recognise that. Sometimes there is confusion and that is what creates the tension. We exist in our own right, both because our beneficiaries need us and because of the democratic principle of the free organisation of individuals. We need to keep that at the heart of it. I think that sometimes the Government need to develop a thicker skin about what goes on in the toing and froing among charities. We are here to be a partner, but not necessarily a silent one; we are a critical one.

I echo what Richard said about the Charity Commission. We need community policing rather than a weaponised regulator. It comes back to the two-pronged role referred to in the first session by Paula Sussex, the

chief executive. Yes, it is enforcement but it is also enabling, and it needs to focus much more on that second principle. There is an issue about whether it has the resource to do that. I do not think that is a question of charging charities but of the public sector putting more into a responsible and robust regulator. It needs to do more on the enabling part and send some positive and empowering messages to charities about the fact that they can do their jobs and help their beneficiaries, and that for the most part they are well governed, or at least governed to the extent they need to be. It comes back to proportionality. Government needs to develop a thicker skin and the Charity Commission needs to focus much more on the enabling side.

Lord Chadlington: If I may be frank, what worries me about your answers is that you have explained the problem but you have not answered the question about the relationship between you and the Government. Let us take an example and then I am sure I will be clearer. Richard, you mentioned the new legislation regarding tax and the way that is unfairly hitting charities, as we would all agree. What steps are you taking to change the Government's mind about that particular point, and what vehicles are you using?

Richard Jenkins: I discovered that HMRC had a working group speaking to some tax specialists and legal specialists about charities, but no one had come to talk to us, the practitioner body, about what impact it would have on the ordinary, everyday operating environment of people trying to do good things. That was pretty simple. I found out who was on the committee. I called up, got myself invited to the meetings, listened and opined. Then I got cross and tried to engage other people. Then we built up the evidence base and consulted our members. We went on engaging and engaging. We were very fortunate that Lord Hodgson was open to a conversation and planted some very helpful Parliamentary Questions. We have of course written a stiff letter to the Minister to get OCS and the commission involved. Neither of them was involved, because government is pretty siloed.

We have to be fleet of foot and use all those different mechanisms. What is different is that now we have to innovate and knock on doors ourselves. There is no single platform where umbrella bodies or charities can reliably go every quarter or every six months to raise these things directly with one point in government. It is a huge demand on all our resources and it is probably not very efficient, but it is how things have gone.

Andrew O'Brien: It is very much the death of the insider model. It used to be a quiet lunch or drink somewhere. A Minister would take a charity chief executive somewhere and say, "By the way, I am thinking about this. What do you think about it?". It does not work like that any longer. As Richard said, basically our job as representative bodies is to try to find out what is going on across the amorphous mass of government, pick out the key challenges and problems and make sure they are listening to our members and the charity sector and taking into account our needs. I agree with Richard. I do not think it is a particularly efficient method, but that is the reality of where we are.

We also have to be much more vocal about it. It is probably due to politicians not liking to be seen U-turning or changing their mind on issues. We are trying to be constructive and get the same outcome in terms of a good policy environment, but there is not as much listening going on; there is more telling charities what we should be doing or how we should be acting. As a sector, we need to find more public avenues to make sure that people understand the challenges we are facing. That can also have an impact on the relationship. As I think you are probably touching on, Governments do not always like us when we tell them publicly about things they are doing wrong, but we have to.

The Chairman: I want to move on. There are still four questions left and there is never enough time.

Q36 **Lord Foulkes of Cumnock:** I will resist the temptation of going down the line of armed commissioners coming in to sort out subversive charities, although it sounds interesting.

Andrew O'Brien: That is the fantasy.

Lord Foulkes of Cumnock: Central to our study is the sustainability and effectiveness of charities. A number of us are worried. We heard earlier that lottery funding is static, central and local government grants are being cut back and voluntary giving is not improving. What needs to be done to improve the financial stability and effectiveness of charities?

Andrew O'Brien: We need to start by asking what we mean by sustainability. That sounds like a very glib comment, but it is true. In the sector, we have got caught up in somehow seeing growth as sustainability. It does not necessarily mean that. What it means is: do organisations have the resources they need to deliver their objectives and serve their beneficiaries? That is where we need charities to start from. I would argue that, given the evidence we have seen here today, the answer at the moment is no. There is a gap between the level of demand, where we are expected to step in to support people, and the resources that we have, but we are an entrepreneurial and resourceful sector and we are trying to find ways to close that gap. There are ways that government and others can help—for example, on full-cost recovery, which is something the sector has talked about for years. In no other sector do you find commissioners quibbling over line after line and saying, “You do not need to fund that governance cost; you do not need to fund that person”, or, “We will not pay for the lighting in here”. That is what happens with charities. We need to move away from that. We need a much richer understanding on the funder side, particularly government, about the full costs for charities in delivering those resources.

There is also the huge burden of irrecoverable VAT. The sector is losing over £1 billion a year in that tax, which again is a classic policy example; the Government thought they were helping us by giving us exemptions and zero ratings, but we cannot claim back some of that VAT, so it is dead money, lost to the sector and lost to beneficiaries. There are no silver bullets for the sustainability of the sector, but there are specific policy

changes and improvements in commissioning practice that government could make.

I come back to what seems to be the central issue around grants. More grant funding and more unrestricted funding as a method of delivering outcomes would help the sustainability of the sector greatly. If government engaged with the sector and people like Grants for Good and the Association of Charitable Foundations to learn how better to do good grant-making, we would significantly increase the sustainability of the sector, but let us not confuse that with growth; it does not have to be growth.

Lord Foulkes of Cumnock: What about improving voluntary giving without waiting for people to die and leave a legacy?

Andrew O'Brien: As you can imagine, we have done a lot to try to boost voluntary giving. I hark back to the previous comments made about technology and whether we can do more to access that, but there are some bread-and-butter issues—for example, gift aid, which is a top-up of the relief from income tax paid, based on charitable gifts. We still have not maximised that; hundreds of millions of pounds of gift aid are still going unclaimed. If we could get that claimed, it would significantly boost the value of those donations.

It is also about explaining to the public the importance of their giving and its impact. We are very supportive of efforts that have been made across the sector to help charities better explain the impact they make, because we think that will lead to more voluntary donations. There is a ceiling on that. One of the remarkable things over the past six or seven years is that giving has held up as much as it has. Household incomes have been significantly squeezed. The British public are incredibly generous and they have kept on giving, but their disposable income has a ceiling; you cannot give more than you have, so we have to be realistic at this time.

Lord Foulkes of Cumnock: In voluntary giving, it is the poor who give the largest percentage of their income.

Andrew O'Brien: Yes, precisely. There is no silver bullet, but, as I said at the start, all charities are thinking about diversifying their income. They are looking at all possible income streams, but there is a strategic role that government can play to help make some of those streams a bit more sustainable and useful for the sector.

Richard Jenkins: It has to be about governance and trusteeship. That is terribly important. Organisations face multiple difficulties as regards the beneficiary group they are trying to reach, the different funding streams they have to access, and reaching out and collaborating with other organisations so that they can be stronger together. Something has diminished in the availability of ready support and simple guidance for organisations, so improving the quality of governance is terribly important.

There is a finite amount of funding for the sector, so it is about the kind of funding. To recall the idea of having different tools in the toolbox, what is

the funding mix? I do not think there is one size fits all. Again, there is the idea of currency. One of the things foundations have been doing since the credit crunch, in response to precisely those crises, is increasing the amount of core or unrestricted funding they give; in other words, they no longer fund projects, they fund organisations, because they feel confident in them—they know they need to go on a journey and they want to back them.

Lord Foulkes of Cumnock: Do you ever encourage organisations to merge so that they become more effective and reduce overheads? There is a lot of duplication, is there not?

Richard Jenkins: There certainly is, but in my walk from Clapham to Stockwell, from the big supermarket to the place where I live in Stockwell, I pass four Sainsbury Locals. We could take a lesson from the private sector. Locally based, small high street organisations doing substantially similar things may not necessarily be a bad thing. It is the best way to be close to the beneficiary group you are trying to reach. I would be sceptical that merger is going to be the silver bullet. At the end of the day, charity is an expression of human passion, resourcefulness, a sense of injustice and the need to do something. You would not want to say to anyone that they should be doing that somewhere else.

Q37 **Lord Bichard:** How do you go about supporting smaller charities to fulfil their financial responsibilities and become more efficient? Failing to do that goes to the core of the issue about trust and public respect, so what are you doing to help them?

Andrew O'Brien: Perhaps the Charity Finance Group should answer that first. We have about 255 small charity members. For us, membership is a way of generating the income we need; we do not exclusively serve them; we serve all charities. To respond to that specific need, we are very grateful for funding from the Esmée Fairbairn Foundation to run a small charities programme, which will be starting next year. That will provide cheap subsidised training on managing finances, tax and trading issues and basic financial skills for small organisations—those under £1 million. We are working with Small Charities Coalition and NAVCA to deliver that.

We also try to put out free publications and advice; for example, we have done things on auto-enrolment, risk and fraud. We are always trying to see what additional support we can give smaller organisations. We run a lot of training. For example, on SORP—the statement of recommended practices, which is the basis of our accounting in the sector—we ran some very successful training. We got over 1,000 delegates to go through that training. We are looking at the digital aim—the webinar side of things, websites, Q&As, et cetera—to try to give small organisations, which, as we have all touched on, are struggling in terms of capacity building and support, a cheap and easy way to get access to that.

You are absolutely right that we need to focus on the smaller end of the market. We need to make sure we are giving them the tools they need, because good financial governance is the bedrock for successful delivery of impact and supporting beneficiaries. This relates back to Rebecca's

point. Why do people come to charities? It is to serve beneficiaries, and we need to link financial governance and capability with those beneficiaries, and make them realise that the most effective way to serve them is to have that call.

Lord Bichard: You described an impressive list of activities, although some of them start next year.

Andrew O'Brien: One of them does.

Lord Bichard: Are you satisfied with what is currently on offer, or do you think there is a gap?

Andrew O'Brien: There is a massive gap; 97% of our sector is under £1 million. A lot of our training across the sector is aimed at those who can pay for it, usually the bigger organisations. We need to focus more on the needs of the smaller ones, and they are insatiable. I do not think that as bodies we will ever provide everything they need, but we need to find more. Technology is our friend, but it is also about messaging. We need to encourage organisations to realise that investing in financial capability is worth their while, whether they are themselves investing or are working with their funders to access funding to invest in that kind of activity. We have not met demand; we will not meet it next year, but we will keep trying to expand our activities because it is so critical.

Richard Jenkins: It is more local for charitable foundations. They have an enormous care for the stability and good governance of the organisations they are funding; otherwise, they are putting their own money at risk. There is a growth of what in the community sector is called funder plus. It is not just giving a grant; it is giving extra support to organisations to build their capacity. One of the good stories that people tell about social investment is that when organisations, in order to go through the process of accessing social investment, have to reform completely their financial management they are much more astute and capable at the end of the journey, even if they do not access the social investment, than they were at the beginning. There has to be a question about doing that for all sorts of organisations regardless of whether or not they are going for social investment. Lloyds Bank Foundation for England and Wales is setting up a specific programme around capacity-building organisations and improving their good governance, especially their financial capability.

Q38 **Baroness Barker:** Last year, we had some spectacular governance failures in the sector, which concentrated people's minds. In the wake of all that, what do you think could and should be done to improve governance, particularly in relation to finance?

Andrew O'Brien: There are a number of things. We have to be very careful about the language we use. It has to be empowering. One of the biggest barriers is that trustees feel they are almost being told they cannot manage to finance their organisations effectively—it is too complicated, there is too much regulation to understand and the SORP is too impenetrable. It is not. If you genuinely have the needs of your beneficiaries at the heart of your decision-making, if there is a regular

flow of correct and accurate financial information to your board, and you have an inquiring and challenging board that uses its common sense, judgment and experience to ask the right questions—that is why it is there—you can successfully financially govern your organisation. What we have to be honest about—I commend the Charity Commission for its work on that—is the commitment it means. It requires time and effort to understand your organisation’s business model and its financial situation and sustainability, and you need to invest that time and understanding, and not just pass it off to the treasurer, chair, chief executive or finance director. You need to understand it yourself, but you can understand it. Maybe CFG, NCVO and some of the other bodies need to work together more on empowering trustees with the information they need to do that.

This year we are doing some guidance for trustees on charity finance, to highlight some of the principles of good financial management. We need to keep it positive and not get too hung up on a couple of individual circumstances that have, rightly, concentrated the mind but are exceptional. We need to remember that for the most part financial governance in the sector has improved considerably over the past 20 to 30 years. We need to keep improving, but, from the perspective of CFG, it is a positive story. We need to keep it an empowering message.

The Chairman: If I were approached to be a trustee, how would I know where to look? We have had representatives from several umbrella or infrastructure bodies today, and we had the Charity Commission last week. I would not know where to start if I was not involved in the sector. Is there an issue about the dispersed nature of the information and its availability?

Andrew O'Brien: Do you mean how you find out your financial situation as a charity?

The Chairman: No. If I agree to help with a local charity because I am interested in it and care about it, I know I have some responsibilities. Where do I start to look for advice and help? It feels as though there are a lot of organisations like yours willing to help, but from a user’s perspective how would I know?

Andrew O'Brien: There have been a lot of comments about GOV.UK and the difficulties there, but the Charity Commission website is improving the guidance on offer. Trustees need to go there first, but there is much more that can be done. I think Paula Sussex mentioned signposting in her evidence. At the very start of their journey, trustees need to be provided with the appropriate signposting while they are focused on the topic. There are things such as the trustees’ newsletter and the website; and there are alerts that people should be accessing. We as a sector need to partner better with the Charity Commission to get that information out there, but there is a role for funders and foundations as well to help their grantees and others find out where those resources are. We are always having good and positive conversations with them, but we have to remember the scale of the issue. At present, there are 850,000 trustees and 160,000 organisations. A big effort is required to try to communicate with that many, but we need to get better at it. Digital technology could

be a friend for us; it is making it easier for us to communicate. Whether those on the receiving end are reading and listening to that and acting on it is a different issue, but we need to do more on signposting.

Richard Jenkins: Someone made the point that they recently set up a company and got a nice leaflet from Companies House saying what their role was as a director, but the same thing does not always happen when you set up a charity. CC3, which is the Charity Commission's guidance on the roles and responsibilities of a trustee, is on the website, but you have to find it and then understand it when you read it. There may be some bridges to be built. There might be a case for the commission to put that extra, more accessible piece of information in trustees' hands so that they know which areas of responsibility they must attend to.

We have been learning in our organisation that financial management is a big thing for foundations. We are the stewards of £50 billion-worth of investment assets, two-thirds of the assets of the whole charity sector. Since 2008, the road has been a bit rocky, but we have worked hard at helping people with their governance. What we have found really works is not telling people what to do, but giving them the hard questions they have to answer, because at the end of the day there is not just one size fits all. Trustees have to do what is right for their beneficiary group, in their context. It is not so much waving the finger at trustees and telling them what they ought to do, as empowering them to use their discretion, which is their legal duty, in a way that fulfils their fiduciary obligations, discharges their resources entirely for the benefit of their beneficiaries and helps them to know what questions they must take account of along the way. There is a gap, and it is about bridging it with something quite simple.

Q39 **Lord Bichard:** If you take the example of the leaflet for directors, which is a good one, the better ones are now very easy to understand. Part of my criticism of the briefing notes that I see for trustees is that they are almost impossible to understand, and they frighten you. There is a degree to which you have to be frightened because this is a serious job, but, on the other hand, we want people to be absolutely clear. The tone of voice that is used is terribly important, and I believe that so far we have not got that right.

Richard Jenkins: That is right.

Andrew O'Brien: This is what Richard and I do. We are constantly suggesting how the commission can make it understandable. Richard always brings the practitioner's point of view very well. From the charity finance point of view, we are looking at what finance directors, managers and charities on the ground are trying to do, and how the guidance can be better written to enable them to make decisions. You are absolutely right. Sometimes we assume that trustees and people coming into these roles have a lot of knowledge. We need to start from very basic principles. The questions are the critical bit. It is not about giving people reams and reams of guidance, but about giving them the principles and the questions they need to ask. The commission is better at expressing what those principles and questions should be, but it is an ongoing process.

Richard Jenkins: I echo that. In its policy function and in coming up with guidance, the commission has been very porous in working with practitioners to get it right, so I think it is aware that there is an issue of communication.

Q40 **Baroness Gale:** What is your one key suggestion for a change this Committee could recommend to help to ensure the sustainability of the charity sector?

Richard Jenkins: There is no silver bullet—sorry. It is too plural and diverse a sector for there to be one thing, but I offer the Committee the suggestion that you go to the end of the sentence and ask: to make the sector sustainable and effective for what? You have heard that in a number of cases the sector is beginning to be misshapen or distorted because it is being recruited to various other agendas. I encourage the Committee to think carefully about what charities are and what they contribute to society, regardless of other people's agendas, and then work back from there. It is a bit like charities working back from their beneficiaries.

Andrew O'Brien: I am not going to say governance, because everyone has said it. Rediscovering the power and importance of grant funding would be one key recommendation. Governance is absolutely critical, and you need to manage your resources effectively, but there is a big question about who pays for that and how it is funded and sustainable. You have heard today how grants, particularly unrestricted grants, can help to resource governance and leadership to make the sector efficient, effective and sustainable. The key recommendation would be rediscovering the power of effective grant-making.

The Chairman: On behalf of the Committee, I thank both of you. It has been really interesting evidence, clearly described. You have given us some good quotes. We have all found it very interesting. Thank you both very much indeed.