



Select Committee on Charities

Corrected oral evidence: Charities

Tuesday 11 October 2016

4 pm

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Members present: Baroness Pitkeathley (The Chairman); Baroness Barker; Lord Bichard; Lord Chadlington; Baroness Gale; Lord Harries of Pentregarth; Baroness Jenkin of Kennington; Lord Lupton; Baroness Stedman-Scott

Evidence Session No. 4

Heard in Public

Questions 41 - 50

Witnesses

I: Matthew Taylor, the Royal Society for the Encouragement of Arts, Manufactures and Commerce; David Cutler, the Baring Foundation.

Examination of witnesses

Matthew Taylor and David Cutler.

Q41 **The Chairman:** Welcome to you both. As you know, this session is open to the public. I must warn you before we go any further that we are expecting votes this afternoon. If you hear a very loud bell, we will have to adjourn the Committee session for 10 minutes while we all go to vote.

A webcast of the session goes out live and is subsequently accessible via the parliamentary website. A verbatim transcript will be taken of your evidence. I know that you are both very familiar with this process. That, too, will be put on the parliamentary website. A few days after the session, you will be sent a copy of the transcript and you can check it for accuracy. We would be very grateful if you could advise us of any corrections as quickly as you possibly can.

After the session, if you want to clarify or amplify any points that you have made or have any additional points to make, you are welcome to submit supplementary written evidence to us.

Perhaps we could begin by you introducing yourselves to us and then we can start the questions. David, would you like to start?

David Cutler: Thank you very much indeed for inviting me. I am David Cutler and I am the director of the Baring Foundation.

Matthew Taylor: I am Matthew Taylor and similarly grateful to be invited. I am chief executive of the RSA.

The Chairman: I know many of my colleagues will be known to both of you. As each of them speaks for the first time, they will declare any interests that are relevant to this session.

Before I ask the first question, let me say that you know this Committee is focused on strengthening the charity sector. What is the role and purpose of charities within civil society? That is a very general question to you both to start off with. Matthew, would you like to begin?

Matthew Taylor: I would like to say two things and I will try to avoid long-winded answers so that we can get through as much questioning as possible. There is a kind of minimalist account of what the charity sector is, which is that it is not the public sector and it is not the private sector. It is not a bad starting point, to be honest, because once you move much beyond that you start to get into all sorts of complexities. It is a part of society that is committed in one way or another to social benefit and which seeks to achieve that in part by mobilising the voluntary efforts of people. That does not necessarily just mean volunteers; it also means mobilising sentiment, emotion and affect.

I do not think you have powers to imprison people for being impertinent, but, secondly, I am not sure of the value of looking at the sector as a whole, to be honest, although it is interesting that you are looking at it in that way. One cannot imagine a Committee saying, "We are looking at

how to help business". We would probably say, "We are looking at how to help manufacturing business, small business or green business". The second that you start looking at the sector, not just as an intellectual exercise but in terms of making useful recommendations and observations, you want to break it down into some of its constituent parts. Indeed, one of the hard questions—and it is not merely an academic question; it is an important question—is: how should we understand the different categories? What is the best way for us to break the sector up in order to understand it and to support it?

The Chairman: Thank you very much. David, would you like to add anything?

David Cutler: I certainly cannot improve on that. As Matthew says, there is a weak or narrow definition, and you could simply stick to the definition that the Charity Commission would use in registering charities and the sorts of public benefit that it would recognise.

The purposes and the role of a broader understanding of charities in the sense of actors in a broader civil society I am sure are the ones that Matthew has talked about: seeking to create public benefit for their beneficiaries, but, more broadly, for society; the creation of a good society; the role of charities in associational life and how they civilise us because of the way in which we interact with each other; and their role in the public sphere and how they help democracy by bringing the voices of the whole of society to government.

It is this incredibly tricky thing that Matthew has already talked about so lucidly. Do you look at things broadly? You very kindly invited me, because you are aware that we are going to have a broad look at civil society—an even broader definition than the one you are using. It is certainly something that we have all thought about a great deal. We are going to start off with a broad look at civil society. There are things that affect civil society quite generally without having to break them down into categories, such as legislation, the role of the Charity Commission and so on.

The Chairman: David, forgive me, but we have a question specifically about the inquiry later on. May I put a supplementary to the one that I asked you, which deals with what you said about the roles of charities? What roles might charities play in addressing the challenges that are likely to come up and hit us, which are likely to be faced by society in the coming years? Perhaps both of you could answer that.

David Cutler: They are so multiple that I think they are relevant to any of the challenges that are coming up to society. They are utterly central in trying to bring the issue of inequality to the attention of the whole of society but particularly to government. They are absolutely central to that and have already shown that in the way they have been campaigning on that issue. But you name it—whether it is ageing, xenophobia or problems of discrimination—there is no limit to the response of charities to those issues.

The Chairman: Do you want to have a go at that one, Matthew?

Matthew Taylor: I would agree with that. An interesting conversation to have would be: what do we want to be the specific characteristics of charities, and do we behave towards charities in ways that encourage those characteristics that we think are the distinctive gifts that they bring to bear?

If one was to stand back from this and say, "Why do we want charities to do things rather than businesses and the public sector?", we would probably talk about a capacity for innovation—the capacity to do things differently because they are not hidebound by the need to generate profits on the one hand or the need to pursue public service targets on the other.

There might be something about innovation. As David said, there would certainly be something about connectedness and engagement, and the idea that charities can have a richer relationship with people than, again, can the private sector, which tends to view people in certain categories, depending upon their relationships and the business model, or the public sector, which tends to view people as taxpayers or as customers of particular services.

As I said at the beginning, it is also important to recognise that one thing that charities should bring to bear is the fact that they can mobilise people on the basis of sentiment—people are doing things for that organisation, as workers, trustees or volunteers, because they believe in the mission of the organisation.

To finish, and David in his last answer reminded me of this, when we think about charities we need to think at the same time about what they are aiming for and how they do it. Both these things go towards what makes a distinctive charity. I think sometimes we focus too much on what they are aiming for and too little on the way in which they go about it, and it is the way in which they go about it that should be an area where charities have something very special to offer.

The Chairman: Thank you very much.

Q42 **Lord Lupton:** David, why did the Baring Foundation and, so far as you know, your other colleagues decide to support the inquiry into the future of civil society, and what do you think are the questions it will focus on? It will be quite helpful for us to have the background to your decision to support it.

Matthew Taylor: As we are bidding to be the secretariat to the commission, I am looking forward to the answer to this as well. I will take it back to the RSA so that we can tweak our submission.

David Cutler: I am going to make sure the public account goes to all the secretariat. There are several different reasons why this came about. The Baring Foundation itself has had an extremely long-term interest in strengthening civil society—strengthening charities. I think there is a

danger that this is characterised as a recent political decision by us or other funders. It would be quite incorrect to take that view.

For instance, we started a programme about the independence of the voluntary sector, probably when Matthew was an adviser—I am trying to remember—in 2007 and 2008. There have been different concerns over that period about what is happening in the voluntary sector. Is it, either for external or internal reasons, losing that distinctiveness that Matthew has talked about?

There have also been changing political pressures. There was a feeling in the last decade that public service provision was creating pressures on charities to behave in particular ways that threatened their independence. I am afraid there was a whole series of things from the coalition Government, particularly in the last couple of years, that we were worried about. Those tended to be around restrictions on the ability of charities to speak out on the part of their beneficiaries. These have been very carefully documented by a series of reports produced by a panel on the independence of the voluntary sector, and the latest report came out this year. It suggested that it was too narrow to simply look at the independence of the voluntary sector and that there was a much broader range of issues that were affecting the voluntary sector that needed to be looked at broadly and holistically. That is why we took the decision.

Lord Lupton: I am not sure the second part of the question was answered. What do you think its key focus will be?

David Cutler: Thank you for reminding me of that. I am sorry I did not answer it. We have tried to be extremely open-minded about the issues. There are a couple of reasons for that. We have very strongly emphasised the independence of the inquiry. We have deliberately looked for inquiry panel members who will show a great diversity in being people who work in the voluntary sector and those who have never worked in it, people from all different backgrounds and views. They will bring an extremely robust and independent view of what is happening in the voluntary sector.

We have suggested as their initial set of questions pretty much the same questions as were posed by the Deakin commission about 20 years ago, which is to look broadly at the state of civil society, what is affecting it both from within and from without, what the opportunities are and then how those opportunities can be maximised.

We are trying to be very forward-looking; it is looking over the next decade. Things have shifted immensely in the last decade; they will shift immensely again in the next decade. We do not want to restrict what they discuss in that way.

We have also tried to take a very positive view about what the opportunities are going to be over the next decade. We have concerns that there are also many things that the voluntary sector can be doing for itself to improve the current state.

Q43 Lord Chadlington: You have talked a lot about independence. What is the role of the state in civil society? In particular, what do you think the issues are that government should be engaging in when it thinks about the policy and legislation that might affect you?

Matthew Taylor: At the risk of complicating things, this is where it is important to say which bit of the sector we are talking about. The relationship that a Whitehall department has with a major charity with which it may be working in partnership, or it may be commissioning that charity's services, is very different from the relationship, for example, that a local authority might have with the informal charitable sector that is working within that neighbourhood. Let us remember—and David probably has the numbers at his fingertips—that the vast majority of charities have no staff. Obviously, one's relationship with a global charity receiving millions of pounds or hundreds of thousands of pounds in public money one way or another is completely different from that.

To take a couple of points on that spectrum, there clearly is an important question for government about the responsibility it has to ensure that, in commissioning services and working in partnership with the third sector, it does not drive out those aspects of the third sector that are its particular qualities. I do not think this is something that can be resolved. I think it is a tension. The important thing is to recognise that tension and to talk about it openly.

The RSA from time to time gets money from local and national government—and from other sources as well. If you get money from people and you work with them, it necessarily colours your views of them, and it is likely to lead you to think, for example, that if you want to criticise that organisation you can possibly do it politely through the back door rather than making a big public noise about it. These things are inevitable. So, if the government is national or local and it is putting money into the hands of charities, it needs to ensure that it does that in a way that allows the charity to carry on its roles of advocacy in a reasonable way.

A second, slightly different issue, but one that we are not talking about quite enough in that relationship, in the context of constraints on public expenditure, is that quite a lot of voluntary donations by the public are now going in to subsidise government contracts, and that worries me. Were the public to know about it, I think the public would not approve. It is not to say that we should not be educating the public and it is not a reasonable role for charities to say, "We cannot provide this service at a decent level; therefore, we are going to use our other resources". But in these times of reputational risk, if something is going on that we suspect that were the public to know about it they would not like, we have a responsibility either to change the practice or to engage the public in a conversation about it.

At the other end, when it comes to much smaller charities, exploring how we can best support those community-based, small-scale initiatives, without stifling them and pushing them into the formal sector, is another

very important question. There is good work done, for example, by the Young Foundation, which demonstrates that there is a wealth of activity within civil society that is often not even known about and not even recognised.

The question is how we support those very small organisations that have sprung up around a kitchen table, in a pub, or over the garden fence in response to a local challenge. How do we support those organisations without overly formalising them or suggesting that charities are on some kind of pyramid of development and a tiny, informal charity's deep aspiration is to become a larger, formal charity and grow and grow and grow? That would be a disaster in my view.

The value of these kinds of small, informal organisations is precisely in their nature. Supporting those organisations without bureaucratising them or forcing them on to a conveyor belt of trying to grow is at the other extreme. If we had more time we could look at other different types of charities and other different types of challenges, but from the very big and the possibility of conflicts of interest and compromises, to the very small and the need to support them without strangling them, are two good questions.

Lord Bichard: With your agreement, could I ask a supplementary on that, because Matthew left it just when it was getting really interesting? How do we support those very small charities or gatherings better than we are at the moment?

Matthew Taylor: It is an interesting question. The Labour Government put quite a lot of money into an answer to it, and that was formal methods of capacity building and providing—what went under different names—anchor institutions. I am not sure it really worked, and the reason was that it was implicitly saying to those organisations, "The route for you is to become more formalised and a bit more manageable and tidier for us". We need to be cannier about the kinds of support, and it is more to do probably with platforms that allow those people and organisations to connect with each other and feed off each other, and rather less about saying to them, "Here is the kind of framework and route for you to work in".

I am quite taken by the growing evidence now in the third sector. People used to talk about the big issue being scaling up. That was always the aspiration. If something works well in Rotherham, let us do it everywhere. People often found that did not really work. It just seemed to work in Rotherham because of the people there, and when you did it somewhere else it did not work in quite the same way.

People are now looking at the spillover, which is that, if something works in Rotherham in a particular sector, how could that encourage other people in Rotherham to think about initiatives that they might take? It is more of a clustering effect.

So I do not think we know the answer. There were some very well-meaning efforts in the time when I was in government to pour money into this, and I do not think it really worked. We need to be slightly more subtle. By the way, technology could be an aid here. Using digital technology cleverly, providing those kinds of institutions with data and insights that they can use in their own particular way, is part of this.

- Q44 **Lord Chadlington:** Matthew, I agree with much of that. The thing that I keep trying to get my mind around—I do not have a solution to this—is that government could create an environment in which the charity sector could thrive. That is not necessarily about tax or scaling up but about other things. It is almost about an attitude of mind, like the kind of thing people did when they wanted to see more small businesses thrive in our society. Can you think of ways in which that might be encouraged to give us a better environment in which charities could thrive? I agree wholeheartedly, by the way, with your point that very often small is beautiful in charities and I do not want to see them scaled up. Could you just talk for a moment about that? Perhaps, David, you could respond to that.

Matthew Taylor: I will start and then hand over to David. As I have suggested, I think it is to articulate more clearly what is special and precious about charities, and, having done so, to be more honest about the fact that sometimes that creates a kind of messiness.

In the same way as David implied, some of the government regulation slightly worries me. Instead of saying that there is a difficulty here, that there are charities funded by the public sector that then campaign and it feels awkward, maybe we should say that that is the price we have to pay for the independence of the sector. Instead, the desire is to say, “No, let us make it neat”. If you recognise the value of the charity sector, you are likely to have a slightly more intelligent conversation and slightly less likely to rush into regulation that might deal with one problem by generating a bigger problem somewhere else.

David Cutler: I can keep it very short because I agree with so much of what you have both said. If you are talking about civil society organisations, for the vast majority there should be almost no role for the state whatsoever. The role of the state is to get out of the way. For the vast majority of those 900,000 civil society organisations, there should not be any involvement of the state, and I actually find it very hard to see how you do not lose that intrinsic precious quality through that sort of involvement. They are so much smaller really than the things that Matthew is talking about. That is the vast seabed of the voluntary sector.

I am concerned, of course, that there is an absolutely central role for regulation. It is an appalling matter if fraud is committed by charities, if there is an abuse of their charitable status. That is a very serious matter. However, it does seem to me concerning that we are becoming more and more regulated, with greater attention to matters that were not considered to be within the ambit of a regulator.

You were talking about attitude. It does not feel at the moment as if the attitude is one that wants to see civil society thrive and flourish. It feels quite threatening as an attitude, and that is my final word on this. I hope you think very much about this as a Committee. This is part of an international picture. This pressure that civil society is coming under is happening in at least 100 countries across the world, for lots of different reasons, with very different Governments and very different approaches. It is very thoroughly documented by the International Center for Not-for-Profit Law, and you can see that within the last couple of years there have been about 100 initiatives around the world to suppress civil society, although it does not feel as if that is the direction in which things are going at the moment or internationally either.

Lord Bichard: This is really a quite important and interesting exchange. Matthew, I am not going to put words in your mouth, but I think you were saying that too often we talk about changing the culture and capacity of the voluntary sector or whatever you want to call it, but we probably need to be changing the culture and capacity of the state and the way in which it relates to that sector, and that is what we have so often failed to do.

Matthew Taylor: I absolutely agree with that.

Lord Bichard: I was hoping you would.

Matthew Taylor: I am reminded of that wonderful line that the challenge in policy is hard-to-reach groups and there is no harder-to-reach group than policymakers. I think that is right and that, generally speaking, the relationship between the state and civil society breaks down because the state sets expectations that are unreasonable. It is not easy, and when we get examples like Kids Company we have to recognise that that is a disaster for the sector. When that happened, anybody in the sector thought that that was going to have ramifications for all of us.

The Chairman: I am sure everybody did. You have mentioned technology, and Baroness Barker has a question on that.

Q45 **Baroness Barker:** What are the key social, technological and, I suppose I might say, economic changes impacting on civil society and how people relate to it and within it? What role do you see civil society has in a world in which social interaction is increasingly a technological matter?

David Cutler: I would like to give you a really fun example that we are doing at the moment. We have a completely different stream of funding about arts and older people. It is a tiny example, but I think it draws out a number of those special aspects that we have been talking about. We are concerned about the access of older people—particularly very vulnerable, frail, older people often in care homes—to arts and culture. We have a new partnership with the Nominet Trust, which is getting its money from Nominet, the domain name organisation. They are, thank God, technically literate, unlike me. I tell them whether or not the arts

are any good that we fund in a very opinionated way, and we are going to fund five demonstration projects, which will be digital projects, to bring arts and culture into the lives of very vulnerable people, who are probably in care homes.

I think that is a fun example, because not only is it going to be a new access to creativity for those older people but it will be a number of other things as well. It will be access to technical skills not only to them but to the people working in care homes, because often they will not have much access to technology. There will be examples where companies can do that too. We are not closed to that. We have not quite got to it, but I am hoping that the organisations with which we will be working will be really good not just at the technical part but the social interactions that will be needed for that technology to work in those care homes. It is a very small example.

Matthew Taylor: It is a very big question. I would make a couple of points about change and challenges and then a point about technology.

We should not forget the fact that it is probably still going to be the case for many years that there will not be enough money to meet people's needs in the way that we would like to meet them. The third sector will carry on being in the role of trying to bridge a growing divide. That refers to my earlier point in relation to that, which is that, although in some ways there are problems with the idea that third sector organisations subsidise state contracts with donations, the fact is it is inevitable and we should come clean about it rather than try not to do it, because it is not realistic.

We have to continue to cope with not having enough money. Also, we have to realise that Britain is a pretty divided country. Without getting into the whole debate about the motivations of people in their referendum choices recently, it is also clear that there is a strong sense of a lack of agency in many parts of the country. If one was being very critical about the sector, one would be saying that, although the British third sector is pretty strong in global standards and the Government—although I agree with David, I think the Government have acted in a clumsy way in some ways recently—broadly speaking have a benign attitude, to what extent in that environment can we say that the third sector is really helping to overcome some of those social divisions? Where is the really large-scale, innovative action that we would like to see?

Some charitable activities could even be said to be reinforcing social divisions because of the ways in which they mobilise people around issues such as faith. How do we address this lack of agency? If one of the distinctive things that the third sector has to offer is a sense of agency and a sense of people acting on their own initiative, what is the third sector's response to the fact that so many people seem to feel that they do not have any control in their own lives and in the communities that they are in?

Can I mention one other thing before I talk about technology, and this is slightly more blue sky? I also think an important opportunity for the third sector is to do with the future of work and the possibility that more of us, because we are getting older, or possibly more of us because there is not enough work to go round, will need to find our status in other ways in our lives. How we think about a society where being a volunteer has the same status as being an employee, and it is an important part of how people feel they are fulfilled, develop and grow in their lives, is a big opportunity. We still kind of think that the big thing in your life is your work, and you then might do a bit of volunteering on the side. It may be that in 30 years it is reversed. It may be that, for a lot of people, the volunteering and caring they do is the biggest part of their lives and they are working 25 hours a week. Who knows? That is a different debate, but I certainly think there is something for the sector about our sense of what is a balanced and fulfilled life. The third sector could be very important in that new world.

Briefly on the issue of technology, clearly the internet—data—provides all sorts of opportunities for the sector to be more productive and efficient, and to use information more effectively. The sector does okay; it is not cutting edge most of the time because it does not have the resources to invest. I also think the sector can be weak on innovation. It can be slightly risk-averse, and its governance sometimes makes it risk-averse. The sector is not where it could be in relation to technological innovation and we should support and encourage it to be better.

The other critical thing for me is that there is a danger that technology leads you to focus on those things that technology makes simple and to deprioritise those things that technology does not help with. I think we have to be a little careful about that. It is very easy to mobilise people online. The danger is that charities think, "We can send out a clever tweet and we can get people going. We can get people to sign an online petition. That is very simple and it is not very expensive, so we will focus on doing lots of that stuff", whereas getting people to sit face to face in a room from different parts of the community and work through a problem is much harder and more expensive.

We have seen a bit of that, I have to say, with membership organisations, which—and I have tried to be very different at the RSA—in my view have focused too much on their members as cash cows and too little as people who are genuine participants in that charity's mission. I think that is because the technology, as it were, of direct mailing, fundraising and all that kind of stuff has moved on very quickly, and there is a whole profession that does it, but the techniques that we use to get people to meet up with each other, talk to each other and find solutions for problems has not really developed in the same way. So my slight worry about technology is that it leads us into technology-friendly activities and away from other things that may be more important.

The Chairman: Thank you very much for that. Can we go to Lady Stedman-Scott's question?

Q46 **Baroness Stedman-Scott:** Good afternoon. How can charities, as part of civil society, play a role in supporting social cohesion and ameliorating the effects of economic inequality?

David Cutler: Can I talk about social cohesion, if I may? What Matthew was saying just now, with which I so strongly agree, is pretty central to that. This civilising role is not exclusive to civil society organisations; it is also through work and other institutions. But there is something really vital about being an active member of a civil society organisation, whether it is a charity or not, and having face-to-face contact, to make decisions, to debate, to meet people and hopefully meet people with whom you would otherwise not be engaged.

One of my friends, who is a very ardent feminist in America, said that one of the wonderful things about where she lived was that she would be on boards of the women's refuge with someone running a big company in the same place. That brought them together in a way in which, absolutely, they would not have been able to meet and discuss with each other in the other parts of their lives. It is complicated, I think, because many charities will be bonding capital. They will be groups of rather similar people together, but there is research again from the States that shows that, if you participate in those sorts of groups, you are more likely to participate in all sorts of other things such as democratic process and so on. I started to feel that this associational aspect of charities is every bit as important as those purposes of alleviation of poverty or whatever it will be.

Matthew Taylor: Barry Quirk, chief executive of Lewisham, makes a very powerful distinction between social goods and public goods. He says that, often, people think the distinction is between private goods and public goods, but for him very often that is not the distinction; the distinction is social goods and public goods. He may have had a more sophisticated example. Imagine a community centre in which there is an argument between the local Somalian association, which wants to hold meetings of the community with a strong faith-based element, and the local women's keep fit club, and the local authority has to make an adjudication about who is going to be using that community centre. This is an argument about different claims of social value.

Reinforced by what David is saying, we need to be challenging charities that have primarily a social good account—that is to say they are doing good for a group or category of people—and say to them, "What are you doing also that is in the general public good, and is there any danger that in pursuing a social good you are damaging the public good—that is to say, by working with one community and not working with other communities, and not forming these kinds of bonds and links, you might be exacerbating problems?"

We should urge the third sector to think very hard about whether or not in its activities it helps to overcome these divisions that we have in our society. It is not easy, because what gets people to be active in charities is affection, values and culture, and that often drives you to be with

people like yourself. How can you have that element, which is people wanting to be with people like themselves and enjoy themselves with those kinds of people, at the same time as those charities? That is an important question for charities to look at and an important area in which they could think about innovative action.

That takes me to my second point, which is your point about economic value. I know it is a much overused word, but I would go back to the innovation word. I think the third sector at its best is very inventive; it is very creative. Too often the third sector's attitude to the public and private sector is one of submissiveness, because it is basically, "Can we get a contract?" or "Will you give us a donation?" More often, it ought to be the third sector going into those sectors with great ideas about doing things differently. A lot of businesses want to do good but they do not quite know how to do good. The public sector wishes it was more creative but it often does not know how to be more creative. If the third sector was more self-confident and more self-critical as well in terms of knowing what it does that is effective and what is not effective, it could be a stronger motor of public sector productivity, which is vitally important, and it could help business on the path. Most businesses worry a lot about how to be more ethical and it could help businesses to think that through.

Baroness Stedman-Scott: I have a follow-up on this. What is your view about the need for charities to measure their impact?

Matthew Taylor: I was chatting about this to my wife last night and she came up with a brilliant metaphor. It sounded brilliant when she said it; I have not said it, so, when I say it, it might break down, but let us have a go.

I have a four year-old daughter named Rose. My wife said, "If we go and see Rose in her Christmas play this year, we will have a set of categories as to what that comprises as a good experience, which will be completely different from the categories that we would expect if she was 16 and was in the school performance of 'Chicago'". That does not mean to say that there is not an account of a good nativity play for a four year-old. There is: there is a difference between a good one and a bad one, but they are just completely different criteria from those you would apply to an attempt by the sixth form to do a professional performance of "Chicago".

So impact is an important thing, but we need to make sure very carefully that the impact criteria we are using apply appropriately to the charity and what it is trying to do. The impact criterion for my daughter's nativity play is that she has fun. I do not mind if people fall over on stage and forget their lines, and if it is a bit boring at certain times, because it is just going to be fun and participative, and that is what I will judge it for. But if, however, I go and see "Chicago" and everyone starts forgetting their lines and falling over and giggling, then I will think that was not terribly well done.

The sector needs to say, "What is it we are trying to do?", and it needs to be accountable for what it is trying to do, but we need to be very

permissive in terms of charities being able to define what it is that they are about.

The Chairman: I will bring Lord Bichard in but then we do need to move on.

Lord Bichard: Matthew has not had many discussions with Ofsted recently, obviously, but I just want to go back to the previous point you made because that is an important point. Often charities are seen as deliverers rather than influencers of policy and partners in policy. That is what I think you were saying. They ought to be seen as that, but that of course requires the door to be open. It is not something that charities alone can ensure happens.

Matthew Taylor: The most powerful account I have heard from business of their relationship with the third sector is not about giving the third sector dollops of money that it can spend on good causes. It is: "The third sector came into our organisation. It worked with our executive and our staff, and they saw the world in a completely different way". That is also the strongest account I have heard from the public sector.

David Cutler: Can I say a single thing about measuring the impact, which is pretty much impossible? I do not really like the word "measure" because for most of the things that we are funding it is incredibly hard to measure anything that is not a long way from the good that is trying to be achieved. "Impact" is an incredibly mechanistic word, again, for most of the things that we are trying to fund. I am a bit averse to them. That is not to say that there are not going to be cases where the words "measure" and "impact" are very appropriate. I am just saying that for many things with which we are concerned they are not.

Matthew Taylor: I have heard Dan Corry from New Philanthropy Capital put this in a very neat way. He says that you should be able to say whether you did better this year than last year.

The Chairman: You will be interested to know that he is coming to see us next week.

Matthew Taylor: I think that is a good way of understanding impact. You should be able to say whether you are doing better this year than last year, and if you cannot answer that question intelligently then you need to think a bit harder about what you are doing and how you account for it. Do you not agree? No?

The Chairman: We must leave this here because we are having a session on impact next week. Now I want to move on to Lord Harries's question.

Q47 **Lord Harries of Pentregarth:** As you know, charities have played an increasingly significant role in the delivery of public services in recent years. How has this affected their role in civil society? Are they losing their distinctiveness? What about the relationship with government? Are they losing something of their independence?

The Chairman: I am extremely sorry. The Committee will now adjourn for 10 minutes.

Sitting suspended for a Division in the House.

The Chairman: Apologies to our witnesses for keeping you so long on a very big vote. We were in the middle of Lord Harries's question. We will now resume.

Matthew Taylor: We have spoken about this slightly already in the sense that the partnership between the public sector and charities in terms of the commissioning of contracts is important. I do not want to see it stop. Also, as I have said, inevitably, charities end up slightly subsidising some of that work, but we need to be aware of the two dangers that I have described. One is that the public do not really understand this relationship and we need to be concerned about how happy the public are with the idea that the third sector's biggest financier now is the state. If you said to most citizens, "Where do charities get their money?", and you said, "Actually, the main place they get their money is from government", most people would be worried by that. So we need to educate the public and have that conversation. Also, as I said—I am sorry if I am repeating myself—we need to attend to this challenge of how it is that charities can be delivering services, be dependent on state contracts and still maintain their independence as advocates. Again, as I said, I do not think that that issue ever goes away, but we need to be vigilant about it.

David Cutler: Am I allowed to say that I completely agree?

The Chairman: You are. Lord Bichard has some follow-up questions.

Lord Bichard: Thank you, Lord Chairman. An area where the RSA has been involved has been the relationship between public service and communities. I would like to invite Matthew to say a bit more about that. In doing so, maybe he would respond to an argument that some people put, with which I might even agree, which is that during the last 30 years we have seen a great increase in the dependence of the individual on the state, to the point where people increasingly believe that if they have a problem the state will resolve the problem. That has implications for charities. The issue that Lord Harries has just been discussing with you makes that even worse, because you are involving charities but you are involving them on the state's terms. Maybe we need to be thinking about charities with a greater role with communities and less dependent on just doing what the state tells them. I am sorry; that is a rather inelegant way of putting what I think is quite an important issue. I know you have done some work on this. I would be interested in hearing about it.

Matthew Taylor: We have done some work on this. We did a major study on social networks in deprived areas. We found that there is a strong and benign impact for people to have strong social networks in disadvantaged communities; it has a dividend in terms of well-being, resilience, economy and employment. It is a very complex issue.

I have one major point and one minor point. The major point is that we need to recognise the importance of human relationships as a critical factor in people's quality of life and the strength of their communities. We need, somehow, to give weight to that in a way that we do not necessarily do at the moment. How we organise and support the third sector in a way that recognises the importance of that relational element and the degree to which charities—this is going back to an earlier point—give people a sense of agency is very important. The difficulty is that it is hard to value that. We live in this world of metrics and measurement. The degree to which you give people a sense of agency or the degree to which people in that community feel more positively inclined towards each other are hard things to measure but they are critical elements of social infrastructure. We need to give proper weight to them and they are what the third sector does best. I am afraid, understandably, it has quite often been those areas that have been the most badly affected by austerity, because they are these intangible social dimensions that feel as if they are almost a luxury when it is hard to provide absolutely core and essential services.

Let me reinforce that by saying one thing. I have mentioned my wife already but I am going to mention her again. She is a Catholic. One of the things that affects me is this. Although I am not a believer, I sometimes go to mass with her. I have been so affected by going to the Catholic church in Clapham Common because there is no forum I go to that is more diverse and integrated than that. Obviously, they are all Catholics, but it has people of all colours, from all parts of the world, of every age, and everything from twinset and pearls to the homeless man. They are packed in to this church. I wonder how often third sector organisations could say that they were able to bring people together in that kind of way. There is something very powerful about that. We need to recognise the importance of that social glue, and we need to encourage charities and third sector organisations to do that and not to squeeze it out.

The tiny point I would make is that I worry that the move from grants to commissioning is part of how this has happened. Just to explain, it used to be the case 20 or 30 years ago that the main way that local authorities funded third sector organisations was to give them a grant to exist and to do a range of things. The main way in which they do it now is through commissioning, which is, "You will deliver a certain set of outcomes". Of course, the former model of funding gives greater scope for these intangible elements than the latter form of funding. A lot of grant funding was a bit sloppy and it was in an age where there was more money around. It is possible to tighten up and have more effective grant funding, but we have lost something by the fact that we do not do that. This is interesting. I see that certain bits of the public sector, such as care commissioning groups, are going back to a bit of grant funding because they are, possibly, starting to realise that in the act of defining everything through a contract you lose something.

Lord Harries of Pentregarth: Can I just ask a follow-up in relation to

that? I want particularly to pick up the point where you said, quite categorically, that it is important for charities to continue their public service delivery role, but you did not say why it was important. Suppose a charity decided too much money from people's personal giving was going in to support government work; it was the whole contract culture that they disliked; it was not what they felt at home with and they simply pulled out, saying, "All right, we are going to leave this to the state". You said, quite categorically, that you thought it was important. Why do you think it is important?

Matthew Taylor: I will answer briefly, and then David can come in because he may have a different view from me on this subject. Where it is done well, the third sector does bring something different. It brings in the fact that it is uniquely focused on that group of clients and that set of interests. Therefore, it has a depth of expertise, connection and empathy quite often that you would not necessarily expect from the local state or the national state, which is doing so many different things, and it can mobilise volunteer effort, which is an important part of it.

However, I would have the greatest respect for any charity that pulled out of that. This is quite interesting. I was reading the other day about Community Links, an organisation in east London, whose funding, if you look at it, is a hill. It went up, it got huge amounts of money from the state and now it has shrunk down. Its account of that is interesting: "It was good when we had the money and we were able to do things, but now we have not we are able to be a different kind of organisation". It is fine for organisations to decide that they lose more than they gain by being a provider. I do not think we should say to the third sector organisations, "There is a moral requirement for you to be involved in public service delivery".

David Cutler: Could I point to the reports that we have commissioned from Civil Exchange and the Panel on the Independence of the Voluntary Sector over the last five years? That is an issue that has been discussed a lot and with the same conclusions that Matthew has spoken of. It ought to be completely compatible with your charitable purpose to provide public services, provided that those are being properly procured and reasonably managed by the state. Given those conditions, it is very much in the charitable interests of your beneficiaries, because it is likely to be a relatively large sum of money and a relatively large number of beneficiaries who are going to benefit from, hopefully, a high-quality service. So you are doing your charitable purpose very well by serving a much larger number of people than you otherwise would be, but, absolutely, charities should withdraw or reject those contracts when they are not properly made.

Another interesting case study that you may wish to consider is the Refugee Council, which has withdrawn from a very large public service contract. That was an agonising decision for them. It was about services to refugees, but they said they felt liberated by being able to speak out

on issues in a way that was proving impossible with that contract. What we need is good public service procurement.

Q48 Baroness Gale: What are the obstacles to greater public engagement with civil society, and how can the charitable sector help to overcome these?

David Cutler: You only have big questions, do you not? I apologise that I am not sure I have a good answer. That is absolutely and definitely one of the issues that our inquiry will centrally be looking at, but I am afraid the timescale is not right for you. Perhaps this is a relatively minor point, but it does feel as if there has been a lot of—I think unjustified—bad publicity recently. I do not think that helps engagement by the public.

Very quickly, I want to say immediately after that that a free press that is properly exposing abuses by charities is absolutely right and it is absolutely what should happen. I am just not sure that that is all that has been happening.

The Chairman: Matthew, obstacles.

Matthew Taylor: I would not want to leave this session without saying some challenging things about the sector, because we have been generally defending the sector.

David Cutler: Yes.

Matthew Taylor: The sector needs to take engagement seriously and to use the best tools that are available for engagement, whether they are online or more traditional. There are things that the sector does or does not do that it could do that would help the situation. I, personally, think that there is still a big issue about the way in which the sector goes around fundraising. I would ban chugging, which, for me, is simply a way of charities fighting over the same money. I do not think there is much evidence that it gets people to give more money than they would have done otherwise. There are experts who might disagree with me. If your experience of the third sector is that of some low-paid student grabbing you in Villiers Street and trying to get you to sign a direct debit in the hope that you will forget about it, it is quite interesting. This fundraising mechanism is designed so that you sign and then forget about it, which you might argue is the reverse of what you actually want, which is for people to engage in something and to continually engage with it. The way in which fundraising takes place in the sector can make it feel to people as though it is all about money, it is all transactional and all that charities want from you is a cheque.

I also think that charities are not as good at collaboration as they ought to be. There is too much of what Freud called “the narcissism of small differences”; charities that are, basically, around the same thing are competing with each other, when they would do much better to collaborate with each other or to merge. Also, within disadvantaged communities in particular, it is very important to set a goal for that community that the community can commit to and that it can deliver to

give a sense of agency. We do not see, often enough, third sector organisations and communities coming together and saying, "Whatever our different priorities, is there something that we can do together? Is there something transformational that we could achieve in this community? Let us relegate our own priorities to this commission".

I was very taken the other day when reading an article by David Miliband about work with refugees. He made the same point about development organisations. He said that, too often, development organisations are all pursuing their own goals in places where, probably, there are one or two things that could be done that would be transformative if only they would join forces and deliver those one or two things. The sector would engage people better if it was better at collaboration and if it was slightly more focused on relationships and slightly less on cash, although I understand the cash pressures. Do not get me wrong.

The Chairman: No, indeed.

Q49 **Baroness Jenkin of Kennington:** I am saying "Hear, hear" in response to that. How should charities as civil society organisations respond to increasing demands for accountability? How can accountability help improve the sector without compromising their work?

Matthew Taylor: We had an argument about this while you were out of the room.

Baroness Jenkin of Kennington: Good. Did you resolve it?

David Cutler: No, of course not.

Matthew Taylor: It was a friendly argument.

David Cutler: It is a civil society. We argue a lot. I am accountable to trustees who take that incredibly seriously. Because it is the Baring Foundation, we are able to attract an astonishingly high calibre of people, who take that part of their duties extremely seriously. I worry if further accountability is going to improve anything. We are a slightly special case in that we will not be taking money from the state. Clearly, you do become accountable for any money that you receive from another body. I believe in a system of trustees being very close to the charitable purpose of the organisation, examining it in depth and making up their mind as to whether the organisation is doing the best job it can. That sort of accountability well done works extremely well. Ever greater pressures on other forms of accountability can squeeze out those distinctive qualities that people have been talking repeatedly about in this session.

Matthew Taylor: I would distinguish between two types of accountability: accountability in terms of propriety and accountability in terms of effectiveness. In terms of propriety, to be honest, the third sector just has to recognise, as the public sector does, that you need to operate as if you are in a glass box. That is to say, if you are doing something that if the public were to know about it they would disapprove

of, you need to stop doing it or you need to talk to the public about it because it is probably going to get out there sooner or later.

When it comes to top people's salaries in the third sector, I am not opposed to the idea that people running large, global charitable organisations, working very long hours in very tough circumstances, should be paid a reasonable salary and those charities should be able to pay those salaries to attract the top people; but you need to go out and defend that argument, and people are starting to defend it. In terms of propriety, we live in a world where you have to align your practices to public expectations or shift public expectations. You cannot do something in the hope that people will not find out about it.

In terms of the impact issue, I kind of agree with David. The point I made earlier was this Dan Corry line, which is to say, "How do we know we are doing better than we were last year?" I would stick to that, because the value of that is that it leads to a kind of reflexivity. What I think Dan means by that is not, "We should be able to give a bean-counting measure of what we have done this year and compare it in detail with last year", but any organisation should be able to say, "What is it we are trying to do? How do we know whether we are doing it, and how do we know whether we are doing it better than we were before?" in their terms—in the terms of that organisation—not necessarily in the terms of the Government or anybody else.

David and I could continue to argue. It is hard for me to understand how anyone is leading an organisation well if they do not have the accountability that is involved in demonstrating that they are delivering their mission better than they did last year, even if that means working in a very idiosyncratic way, but they still have to give an account.

David Cutler: Can I apologise, because I think I answered your question very poorly? If we are simply talking about giving an account—that usage of transparency—I am very strongly of the view that that is exactly what charities should be doing. We have not put my salary to pence—we were going to put how many pence it was as well—but senior staff pay is fully published, for instance. That is a minor example of what we do. If it is accountability in the sense of control by others, that is what I am resistant to. No, charities, absolutely, should be making the best and most public case for what they are doing.

Q50 **The Chairman:** I do not think you will find any argument in this Committee. We must come to a close now, but I am going to ask you one last question, which we are asking all the witnesses. I want one key suggestion—and I emphasise one—for a change that the Committee could recommend to help ensure the sustainability of the charity sector.

David Cutler: I will do one.

Matthew Taylor: Thank you, David.

David Cutler: I looked at that question and I thought, "I do not know what the answer to that is", but I am going to have a blast from the past,

which you will totally ignore. I really regret the demise of the compact as a framework between the state and the Government. It is sort of declaring an interest that I was on the Commission for the Compact as a non-executive director.

The Chairman: We have interested members as well.

David Cutler: I remember Lord Bichard's involvement. I think that a lot of things that have gone wrong would not have gone wrong if we had continued to subscribe to that principle.

The Chairman: That is your one, David: the return of the compact. Matthew?

Matthew Taylor: I am going to say something that might sound incredibly narrow. I would make it easier for charities to reimburse people who serve on their boards. I say that because, having been a chief executive for 10 years, I would quite like to provide a role to be a chair or a non-executive director of a charity. I have been approached over and over again, and the expectation is always that I will do it for nothing. Do not get me wrong. I do not want the money, but I do not see why the RSA should subsidise another organisation's governance. So I have, repeatedly, to turn down things to which I might have been able to make a contribution. We have not talked about governance, and governance is a big problem in the third sector.

The Chairman: It is one of our issues.

Matthew Taylor: We would make governance a bit easier if we made it more possible for people of working age to be able to serve in a trustee capacity without having to ask an enormous favour of their employer.

The Chairman: May I thank you very much indeed on behalf of the Committee for your excellent answers and the rather disrupted time that we spent together? Thank you very much. Remember we said that you will receive the transcript soon, so could you let us have any corrections quite soon? This brings the public part of our meeting to an end.