



Select Committee on Charities

Corrected oral evidence: Charities

Tuesday 1 November 2016

4 pm

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

Evidence Session No. 9

Heard in Public

Questions 89 - 96

Witnesses

I: Lord Hodgson of Astley Abbotts CBE; and Professor John Mohan, Director, Third Sector Research Centre.

Examination of witnesses

Lord Hodgson of Astley Abbotts CBE and Professor John Mohan.

Q89 **The Chairman:** Good afternoon, Lord Hodgson, and thank you very much for coming.

Lord Hodgson of Astley Abbotts: Good afternoon, Chairman.

The Chairman: Good afternoon also, Professor Mohan, and thank you very much for coming. This session is open to the public and is being broadcast on the parliamentary website, as you will both know. A transcript will be taken of your evidence. You will be sent a copy of the transcript to check it for accuracy and to advise us of any corrections. After the session, if you want to clarify or amplify any points you have made or you have any additional points to make, you are welcome to submit supplementary written evidence to us. Perhaps you would like to introduce yourselves for the record and then we will begin with questions.

Professor John Mohan: I am John Mohan, Professor of Social Policy at the University of Birmingham and Director of the Third Sector Research Centre.

Lord Hodgson of Astley Abbotts: I am Robin Hodgson, a Member of the House of Lords, and I have carried out three reviews for the Government of various aspects of the charity and voluntary sector.

The Chairman: Thank you very much. We will take turns asking questions and we will have some supplementaries as well. You do not both have to answer every question if you feel that you have nothing extra to add. As always, we will have to finish at a specific time, after 50 minutes, so I hope we will not have to hurry you but we may have to.

The first question is mine and it is very broad. What are the main challenges facing the charity sector, and how can charity leaders and governing bodies best respond to those challenges?

Professor John Mohan: That is not a trivial question to begin with. I would probably start with public perception because of the discussions and controversies of various kinds around high salaries, reliance on public funding, administrative costs and so forth. I wonder how much they register, given the continued stability in levels of giving and volunteering. We have a long and honourable tradition of giving, which does not seem to go down very much in relation to economic circumstances, so, however significant some of these problems of public image seem to be, they do not seem to stop the public continuing to support charities very significantly. Some of these perceptions are not new, nor is aggressive fundraising, and we have put in some evidence that is about 70 years old on that.

The related point, I suppose, is in the identity of the sector and some of these discussions about the funding base. For example, to touch on what holds the charity sector together, when you look at an organisation level, there is so much diversity in their funding mix, their size and the range of activities that it might be better to refer to it as a “strategic unity”, as my colleague Peter Alcock once did. It is something that is bound together by legal form, but we did not know that there was such diversity. That is something we should value and, in some respects, we should not be searching for global, one-size-fits-all answers to such problems as charities are perceived to have.

Lord Hodgson of Astley Abbotts: One needs to remember that it is, as the professor just said, exceptionally diverse. There are 163,000 registered charities, 41% of which, over 60,000, have less than £10,000 per annum income and only about 1,000 have more than £5 million. Those are in different worlds if you are working in Sunderland running boys’ clubs or in west Africa doing reafforestation, even if you are a medium-sized charity. So there are concerns for large charities and small charities and concerns for charities that are grant-giving as opposed to grant-receiving— the people who give out the money.

For the big charities, I would say the question is maintaining the integrity of the brand. How much damage will be done to the National Trust by the rows they have been having over football at Shugborough and the purchase of land in the Lake District? Then it is fundraising, the methodology of which has obviously proved very difficult, and finally relations with the Government and how government policy will affect their operation.

For small charities, it is about raising the cash because they live hand to mouth and how they do that; then succession-planning and whether they can continue to find volunteers as people’s business lives become more pressured; and finally probably the commissioning process, which often works against small charities as they cannot compete with large charities.

For the grant-giving charities, I would say it is about low interest rates reducing their return on investment. Most are based in the south-east of England and it is a question of how they find the really deserving cases out in the regions and how they measure the impact of what they are doing.

The Chairman: On your last point about demonstrating impact, how do you think charities are adapting to that requirement?

Lord Hodgson of Astley Abbotts: I think they are finding it very difficult. There is quite a lot of intellectual heavy lifting, which has been going on in trying to measure the social return on investments. No doubt, 100 years ago, double-entry accounting was considered very new and very difficult to understand, and I hope we will be able to find ways to measure better social return on investments. There was a very interesting reception on the Terrace last night about the impact, very carefully delineated, of the new art gallery in Margate. I think there are

ways that we have to work on this, but there is a lot more to be done, and there is a tendency in charities to fall back in the public benefit section of their return on some hallowed words provided by the accountants or the adviser.

Professor John Mohan: One thing I would add is the evidence burden on organisations, which is a huge challenge in recording just the basics about who is being served and what is being done in the services provided by organisations. One of the issues that arises there is just to what extent the new forms of funding that are implied by the demonstration of returns of that kind are of relevance to all but a small minority of organisations.

Q90 **Baroness Jenkin of Kennington:** This is mainly to Lord Hodgson. How has the charity sector responded to recent reviews, which I guess are mainly yours, and legislation? Are any further regulatory changes needed to help improve the way charities operate?

Lord Hodgson of Astley Abbotts: It is very early days, so we have to see how the Charity Commission will use their powers. We have not really seen that yet. That is not to say that I do not think they are worthwhile. It seems absolutely extraordinary that the Charity Commission could not prohibit someone from becoming a trustee in a charity down the road five minutes after it said that they were not suitable to be a trustee in another one; that you could get out of any investigation by resigning at the appropriate moment; and that they could not pursue you once you resigned. That seemed to me absolutely counterintuitive.

Remember, if I may make so bold, that there is a Law Commission Bill which is shovel-ready. It has one last bit of consultation - the period for consultation ended yesterday, which is about cy-près and mergers and trust status. Government time permitting, we shall see that within the year and it will bring in a whole further series of quite technical but nevertheless important changes.

Baroness Jenkin of Kennington: You may know that we visited the Charity Commission this morning. Professor, do you have anything?

Professor John Mohan: I will not add to that, thank you.

Lord Foulkes of Cumnock: Lord Hodgson, you have done a remarkable series of reports, for which we should be very grateful. In your written evidence, you said, "We need to address whether charitable status should be considered a privilege or a right and whether volunteer status is an essential part of a charity". A lot of our evidence and consideration here has been about the charities, the small, local charities, and Oxfam, Age UK, a whole range. There are a number of bodies, educational establishments and others, that have charitable status and do not necessarily have volunteers and are not considered by the public to be charities. Do you think that needs looking at?

Lord Hodgson of Astley Abbotts: I know where you are drawing me. You will of course be aware that the Office of the Scottish Charity

Regulator has a different public benefit test. The public benefit test in Scotland requires the charity regulator to have regard to institutions that charge fees. If you are thinking about fee-charging charities—hospitals or schools—this is a very big issue which goes back to the taproot of charitable status. The three great purposes were the advancement of religion, the relief of poverty and the advancement of education. There are clearly all sorts of strongly felt views about this and we could probably discuss this for some time, Chairman. All I would say, and it is not for me to advise the Committee about it, is that this is an issue which has a very short fuse with a very big bomb on the end. The word on the street that I hear is that this Committee is asking extremely good questions and there will be some very worthwhile results from your inquiry; but I dare say two or three paragraphs on private schools would probably drown out everything else you are recommending.

Lord Foulkes of Cumnock: So you think it would be better for us to say that we are talking about what people commonly understand as charities and not necessarily these fee-charging—

Lord Hodgson of Astley Abbotts: It is a different issue. Are there questions to be raised? Of course there are. As Baroness Barker will know, we had the public benefit test about private schools two years ago and the tribunal was supposed to be a cheap, easy and quick facility. There were nine silks sitting there at the final determination and you wondered how fast the taxi meter was moving on that occasion.

Baroness Scott of Needham Market: Staying in the same space—though not private schools—and the public sector contract work that has been done by so many charities, do you have a view about which body just stops being a charity and is a public sector deliverer?

Lord Hodgson of Astley Abbotts: That is what I am trying to get at. I was not asked in my review to review when you cease to be a charity, but it did seem to me that, if you have no volunteers at all, you are a slightly different type of organisation. If you depend on government entirely, local or national, you are a different—not a worse—organisation. It is not a value judgment; it is just different.

Professor John Mohan: We did have proposals some years ago, I think by Nick Seddon, talking about the restriction of those charitable privileges. I think it was based on some rule about the percentage of income derived from the Government, which seemed pretty arbitrary to me. It struck me that, at the end of the day, the charities receiving those funds are still producing a public benefit and delivering services as part of that, so I am not sure that is necessarily and inherently a basis for it. Likewise, there is the absence of volunteers. There is certainly work we do on charity accounts side, of which there were several hundreds, if not thousands, of organisations that are of the kind you describe where there are employees in quite significant numbers, but no volunteers are recorded in their returns to the Charity Commission, and again there is the public benefit issue that you have referred to. I do not think it is quite

as straightforward as saying that an absence of volunteers equals the removal of privileges.

Q91 **Lord Chadlington:** I would like to ask a question about management and leadership in charities. In particular, when you are thinking about your answer, I would like you to think about the fact that it is often more difficult to lead and manage a small organisation than it is a large one. Perhaps you could just start by telling us whether you feel leadership is strong and whether it is improving.

Professor John Mohan: I am not sure how I would begin to generalise across the three instances we have already outlined about the heterogeneity of the sector. A colleague in this research field referred to running small charities as “juggling on a unicycle”, which seemed quite apt for the range of tasks and the complex balancing acts that people have to engage in. On its overall quality, I just do not know where you would start. We can pick up on things about shortages of things, such as trustees, but I do not have a charity sector-wide perspective on this.

Lord Hodgson of Astley Abbotts: I think, for the most part, charities are led selflessly, which does not necessarily mean well. I think most people who run charities run them with the best of possible intentions. Of course there are cases that we have all seen where this is not the case, but most people who run charities do it out of the goodness of their hearts, trying to do their best. That may mean, if they have been there a long time and if they have not surrounded themselves with enough challenge and enough diversity in their trustee body, that it becomes a bit narrowly led.

Lord Chadlington: Would another way of looking at the question be to ask whether the model still works and whether having voluntary trustees and no executives—that sort of structure—works in this world these days?

Lord Hodgson of Astley Abbotts: In my view, it does. It brings a different perspective. A purely professional staff can lead to a charity being diverted to follow the money, as I said in my evidence to you. But trustees who come at it part-time, although it may be a quite full-time and responsible role, have a different perspective. They always provide a different way of looking at the issue, provided they are fresh and involved and have not just served Buggins’s turn.

Lord Chadlington: But, in business terms, we have gone beyond that; we have mixed “non-executive”-type roles and “executive”-type roles to give a steadying hand on the overpowering executive. You do not feel that there is room to see that developing here?

Lord Hodgson of Astley Abbotts: One of the later questions that your clerks have suggested you might ask is: what one recommendation should the Committee make for good governance and trusteeship in the charity sector? If I may jump to that now, I have pressed for a long time and in my review for there to be a limit on the time that trustees can

serve. They should serve for three three-year terms, they should be reappointed at the end of every third year and it would be expected that they would be appointed for a second term, and a third term if they did well. It would not be a legal requirement; it would be a “comply or explain” requirement. If, Lord Chadlington, you have set up a big foundation, you are entitled to stay there for life because it is your money and that is fine, but you explain that and then everyone can see that you have a particular position and you might have a particular influence. I think the rotation of trustees is a way of keeping the sector fresh and providing an effective check on professional staff who may have all the tensions between executives and non-executives, which you referred to, in commercial companies.

Lord Bichard: I do worry when we generalise about leadership in any sector, really. I think I am with Professor Mohan in saying that it is variable. I have come across some inspiring leadership in the voluntary sector and I have come across some abysmal leadership in the Civil Service, so I am a bit worried about that. Maybe a more positive and constructive question would be: are we doing enough and could we do more to support leadership within the sector at a time when commissioning is squeezing out, if you like, the infrastructure costs? Just to continue my analogy, the Civil Service spends a vast amount of money on leadership. Could we do more in the voluntary sector to support leaders—you and upcoming leaders?

Professor John Mohan: It does strike me as a classic area where there is almost a market failure. No individual organisation is large enough to invest, with a limited number of exceptions, in significant long-term training programmes. There are schemes, such as Charity Work, which is a very small graduate trainee scheme, very highly selective and very competitive. For many organisations, picking up the point about relations between trustees and executives, only 35% of charities actually have any employees. There are questions, I believe, coming up later about smallness; there is a concern about small organisations and how exactly one resources them.

There are some initiatives emerging, but the majority of charities have an income of less than £15,000 and absorbing any training costs is going to be a big chunk out of their budget. I believe there are initiatives coming forward. The Open University has the Centre for Voluntary Sector Leadership which is beginning to offer some free online courses. One of the things I would point to there, of course, is that you might argue that the public preoccupation, if it is a preoccupation, with charity overheads might actually make it harder to justify that kind of investment.

Lord Hodgson of Astley Abbots: I think selflessness is a virtue, so I do not see that as a criticism of anybody, and I am not criticising trustees generally because it is a very difficult job. If you talk to the executive search firms, which undertake trustee searches for the bigger charities, they say that, if you are clear about what you want—how often you are going to meet, the timing of the meeting, how much power, what the

papers will be like and how long they will have to be a trustee—you will get people to come forward. Most of the places, they say, where they have difficulty getting recruits are where the charity is not clear about what it wants its trustee to do.

Baroness Stedman-Scott: Not wishing to destabilise any charities, would you give chief executives of charities a certain level, a fixed term, such as the ones you are suggesting for trustees?

Lord Hodgson of Astley Abbotts: I would not. The ultimate responsibility lies with the trustees. The trustees have to decide how to run the charity well. At the end of the day, the chairman of the trustees and the trustees have to say, "I'm afraid you have done enough time and we need to make a change". Otherwise, you run the risk of unduly interfering in the executive operation of the company – Trustees in law have ultimate responsibility.

Lord Chadlington: I am unhappy about this bit of the conversation because we have talked today about things that were going wrong and I do not feel that we have our arms around what skills we need for doing these jobs in a constructive way. It is an area that we should discuss, but I have been very interested in the answers that I have received. Thank you.

Lord Rooker: As a small supplementary, I take your point about recruiting people and telling them that it is three years—in other words, that you have an end date when you start. I have found that helpful. When I have gone to bodies and they have said, "Would you join?", I have said, "Yes, I will do three years, a maximum of four", so you do not get the embarrassment. I know of one charity where, when we get to the beginning of next year, one of the trustees will start their fifth decade. It is very close to home, I might add, but I will limit it to that. With founder trustees, with which there is a difficulty, does your time limit apply there as well, do you think?

Lord Hodgson of Astley Abbotts: It is comply or explain. In other words, if you have not met the nine-year rule, and I am not suggesting that three by three is necessarily the only answer, but it is the one that I have followed because it is the one that public companies use, as Lord Chadlington knows. However, if someone is the founder, they have a reason for continuing a little longer as long as it is explained in the annual report that is fine. That enables the public, the Charity Commission or whoever, to know that somebody is there in a special position and it deals with the fact that a founder can be over-mighty and can rule the roost too much. It is an amber light in a traffic-light system: it reveals that some of the trustees have been there a long time. It is not a red light but not a green light either.

Lord Rooker: On the same track, I have a slightly different question that relates to the role of the chief executive. This applies only to the big charities, the top 3%: who, in the main, is performing what we would normally term the "accounting officer role" in those charities? Is it the

chief exec or the chair of the trustees?

Lord Hodgson of Astley Abbotts: The big charities will have a fully-fledged finance department and the trustees will have a finance committee. At least they should have a finance committee which is making sure that the finance function and the cash flow are working and that all financial matters are happening appropriately. It will report to the full meeting of the trustees, who will then make an appropriate determination on the performance.

Q92 **Lord Harries of Pentregarth:** How can charities and other organisations encourage more participation in charitable activity, such as volunteering and trusteeship?

Professor John Mohan: I would probably answer that in two parts. First, it is not just a matter for individual organisations. There are issues about how things, such as the benefits system, do or do not support engagement and how planning policies make it easy for communities to come together and have spaces in which groups can meet and associate. There are wider questions about economic management, for instance, the growth of zero-hours contracts and the effect they are almost certain to have on the likelihood of people engaging and the amount of hours that they are free to commit regularly to do it.

I think the answer to that needs to be drawn much more widely for organisations. As to more participation, is the question more, or is it more of what, is it where, and who? Most of us do engage, whether it is volunteering or charitable giving. The great majority of the British population either give money or give time at least once a month and certainly once a year. That is clear from many social surveys once you stop looking at individual measures in isolation and combine some of them.

In some parts of the country, the proportion of the population who are not engaged is really very small. In my research centre, we did a piece of work about what we called "the civic core", which is the subset of the population who account for something like 80% to 90% of the total money given to charity and the total hours given to voluntary activity. We discovered that around 31% of the population account for four-fifths or nine-tenths. It is a piece of work we did a few years ago and I can send it to the Committee. In the more prosperous areas, you will find two-thirds or more of the population, particularly the middle-aged and elderly age groups, involved at that kind of level already. Therefore, the question becomes: how much more can those people be asked to do?

There is the question of where. There are major geographical variations. A lot of these are what we call, without getting too technical, "compositional rather than contextual". That means that they are down to the social mix of the population by virtue of residential segregation in different parts of the country. So the rate at which people formally engage in formal volunteering, that is through organisations, is probably

two and a half times as high in the most prosperous 10% of communities as in the lowest 10%.

The question then becomes: how do you match that up and get people volunteering across communities. How much? We have had high and fairly stable levels for about as long as we have been measuring it. The survey instruments might have changed, but the levels do not change all that much. ONS and some national surveys have estimated the hours they are volunteering, and there is some significant evidence that the ONS has recently come up with showing that the hours being committed for volunteering have declined quite significantly. That echoes some very sophisticated sociological analysis which shows the effects of austerity on the amount of hours people are giving per week. There are all sorts of questions there which take us beyond the simple appeal. I suppose the point I would then make is that what is important is to consider the basis on which you appeal to people for more voluntary support. It needs to be a positive one, one that is not just about bailing out public services, and it needs to send a message that volunteers are not just a managed resource, but they are making a positive, independent contribution in their own right to an organisation.

Lord Hodgson of Astley Abbotts: The professor is right: the social capital levels around the country are quite different. It was interesting, when doing the charity review, that we had public meetings in different parts of the country and there were areas which were much more starved of attendants, less people-rich, so there is a very fair point there.

The wiser people who gave evidence said that helping a charity is more than just about money—a charity needs more than money; it needs skills of various sorts about cash flow, operations, human resources, all those things. I would hope, and tried in my review to suggest, that there was a real need for national firms, the Civil Service and banks to encourage their employees to get involved in the activities in their local community. My belief was that it was no longer good enough for firms just to pay their taxes and say that was it; firms have more to do to contribute to society and to their locality. Indeed, I have a QSD to explore this further down for debate at the moment. Therefore, a bright, young rising star of a firm would think it good, and the firm would think it good, that he or she had spent some time as their career developed helping a local charity get better. There is much to be done there. Some firms which have done it have found that employees are better employees afterwards and staff turnover is reduced.

Baroness Scott of Needham Market: I am just wondering if, like me, you find it odd that Parliament does not have such a scheme?

Lord Hodgson of Astley Abbotts: Well, Lord Norton of Louth will provide you with a scheme. There are parliamentary groups coming here to work. Do you mean coming to work here or going out there?

Baroness Scott of Needham Market: No, I am talking about people who work for either House going out into the local community and

working. I have tried to get interest in such a scheme and have failed. I am interested, since you believe that other people should do it, in whether perhaps we ought to lead by example.

The Chairman: That is a thought to leave us with.

Lord Harries of Pentregarth: I wonder if any lessons have been learned from the very rapid growth of academies and free schools. One of the aspects of that which really surprised me was the ability apparently of these academies and free schools suddenly to find school governors from everywhere. Has any research been done on that?

Professor John Mohan: Not to my knowledge, but I am sure there will be people considering that.

Lord Harries of Pentregarth: I was really surprised.

Professor John Mohan: That people are willing to take on those responsibilities?

Lord Harries of Pentregarth: Yes, and so many so quickly.

Q93 **Lord Bichard:** In addition to the issues we have already referred to, what do you think are the particular challenges and opportunities faced by smaller charities, however you define them?

Professor John Mohan: You have asked another definitional question: what do we mean by small? There are a number of studies, some of which will say those with fewer than three employees, and some of those will be pretty large organisations as only 20% of charities have more than three employees. Some define it as somewhere between £25,000 and £1 million in a recent Lloyds Bank study. I am puzzled again by a definition that is as broad as that because of the range of organisations. Within Birmingham, there are 800 such and they include all sorts of very small, local and religious-based groups, the occasional scout troop and several playgroups, right up to some relatively large arts and cultural organisations.

Size is arbitrary and it is not a very good way necessarily of thinking about this. We should be thinking more about the needs that they are meeting. If the purpose of what the Lloyds Bank Foundation is doing is to consider organisations that are on the front line meeting urgent social needs, that possibly needs to be sharpened a bit to cover particular subsets of entities.

There is a problem of distinctiveness. On the challenges, there is some work which I think needs to be unpicked a bit more about the income distribution of charities and suggestions that they are losing out in certain ways to larger organisations. The recent NCVO work on that quite strongly argued that, using NCVO's income bands, which again are not the most refined way of looking at this topic, entities of £25,000 to £500,000 or £1 million have lost out to much bigger charities. There are limitations to that kind of argument; I am not clear that they are

referring to organisations that are fishing in the same pond. If we looked at particular funding streams in particular communities, we might well find that out, but the argument about the big charities hoovering up a great share of resources is, in many ways, an arithmetical artefact, which I can explain in a bit more detail. Essentially, as organisations grow, generally, they get into the larger size bands and it inevitably looks as if the smaller ones are being squeezed when, in fact, they are often growing just as rapidly as the bigger ones.

Maybe the issue is the vulnerability of certain types of organisation and in particular communities. We have done work in the past about the exposure of small and medium-sized organisations to public funding in certain areas. There is a feeling that there are many organisations, established quite recently, perhaps with public funding under the Labour Government through various regeneration and welfare programmes, which are now very much feeling chill winds as their funding streams dry up. Because of what we sometimes term the “liability of newness”, in the organisational literature, they have not been around long enough to diversify the funding base, so the issue is identifying which of those organisations are really strategically important and trying, in some way, to support them. I know that that has gone off on some different tangents.

The Chairman: Did you want to say anything?

Lord Hodgson of Astley Abbotts: I would just mention, as I did before, fundraising, commissioning and succession-planning as being important for these small organisations. The shorter distance to the coalface where they are operating will mean more involvement of the trustees—they get a bit closer to the action and they develop personal relationships because they are managing volunteers. Lord Chadlington pointed out the special challenges of that. Small organisations will have a degree of informality which is both good and bad.

Q94 **Baroness Barker:** I want to come back to the same issue that Lord Chadlington was trying to get at when we were discussing the structure of the relationship between the trustees and the staff. I am not sure that, in the private sector, the model of having executive and non-executive directors is distinctly better than the governance model in the charity world. When that relationship works well between the staff and trustees, what are the ingredients of success? How do you know when you see a good board-staff relationship? What is it?

Lord Hodgson of Astley Abbotts: As you prefaced your remark by saying, it depends on the scale, the activity and the personalities involved. However, I would identify three things: that both parties have an understanding and respect for each other’s contribution; that both parties agree and respect the areas of competence and do not try to involve themselves in other people’s activities; and that all parties are open, act with candour and are ready to accept responsibility to step up to the plate when things do not go perhaps as well as they might wish.

The Chairman: That is a clear definition.

Q95 **Baroness Stedman-Scott:** How do you think charities should approach risk and do you think charities are too risk-averse?

Professor John Mohan: I am wondering what "risk" stands for here.

The Chairman: I knew you were going to have to define it.

Professor John Mohan: Sorry, it sounds academic, does it not? I wonder whether it stands for something else which is some sort of idealised notion of the trajectory of organisations. Maybe it is saying something about organisations moving on a journey from philanthropic and local voluntary support through public service contracts to the point where now maybe markets are the only game in town. Those who are averse to risk are somehow reluctant to embrace change. Again, I think it comes back to the point about the identity of the sector. It is probably referring to something to do with financial risk.

Baroness Barker: Or reputational risk?

Professor John Mohan: There may be other contexts in which risk could be defined beyond that. If it is about financial risks, one point I would make is that we know of extensive regional surveys of organisations which have considered, for instance, their reactions to questions about whether they should take on loan finance. From what I know of these big surveys in the north-east of England, in particular, they have shown very little appetite for this beyond a small subset of organisations. Does that mean that the organisations are, in some way, risk-averse or does it mean that they have confidence in what they do without the need to take those financial risks? I do not know, but the evidence is there and that is what it seems to suggest.

Lord Hodgson of Astley Abbotts: I think charities are conservative and they can find change difficult. That is not the same as being risk-averse, but there are at least two areas where charities, I think, have moved slowly, but are moving. One is in adopting social media. Commercial companies and political parties are adopting social media in a big way to develop their supporter base and the way they are moving forward.

The second is an issue which several members of the Committee and I have spoken about over the years, adopting social investment. Many of us feel that social investment is a real opportunity to scale up the funding available to charities, but it requires charities being prepared to make the changes that are necessary to take the money on board. One of the difficulties is that too few charities appear ready to say, "Okay, we have a really good thing we are doing here and we can do it better and more widely, but to do this we are going to have to up our game quite a lot". Instead charities will say, "I am happy with what we are doing. We are doing a perfectly good job and I do not want to change". There is nothing wrong with that and it is not a criticism, but it does mean that some of the good ideas do not get developed and some of the money, which I

think some of us around this table feel could be available, is not being used.

The Chairman: Does this risk-aversion also apply in the field of, for example, collaboration and mergers where there might be some aversion or worry about it?

Lord Hodgson of Astley Abbotts: I think it does. On personality, we have touched on the challenges of leading volunteers already. I remember being lectured in my early days by Willie Whitelaw who said, "You have never seen as much difficulty as there is in St John's Ambulance and Red Cross"—his words, not mine, I hasten to add. There are also things that I hope the Law Commission Bill will do that will make it easier for charities to merge. One of the difficulties at present is that there are a number of technical problems that stop charities merging, such as, notably, legacies. If two charities merge and one charity disappears, under the present law, legacies left to that charity are voided. That cannot be what was intended. What was meant was that, if it is all done properly and all the boxes are ticked, those legacies should be valid. There are a whole series of technical changes that we ought to be making and I hope the Law Commission Bill will do that.

Lord Bichard: Would you agree that there are different sorts of risk? You have concentrated on a particular area or areas where the sector may be cautious. We visited a charity on Thursday which was active in the early stages of HIV in this country and was inspiring, innovative and carried a lot of risk in those days. If you look across the voluntary sector, would you not agree that the sector has been at the forefront of innovation and risk in public policy?

Professor John Mohan: Yes.

Lord Hodgson of Astley Abbotts: Yes.

Lord Bichard: I thought that was an important point to make because we are talking about quite administrative areas.

Lord Hodgson of Astley Abbotts: Yes, and also at the forefront in areas that are not always necessarily popular.

Lord Bichard: Absolutely right.

Lord Hodgson of Astley Abbotts: Certain charities are able to tug the heart strings better than others and those which are doing important public policy things in unpopular areas should be congratulated.

The Chairman: The charities' advocacy role has also been very important in bringing issues, such as HIV and mental health, to public prominence as well, has it not—so not just their services but their advocacy role on behalf of those groups?

Lord Chadlington: And often trustees are taking reputational risk in being the trustees of those charities because they tend to be important

people in the local community. It is a very important thought—how we manage risk, particularly reputational risk.

The Chairman: Thank you very much. We are asking everybody a last question, which Lady Gale will ask you.

Q96 **Baroness Gale:** What one recommendation should the Committee make on governance and trusteeship in the charity sector?

The Chairman: Lord Hodgson had one earlier, but we will allow him another.

Lord Hodgson of Astley Abbotts: I am sticking with that one. Not that I think it follows exactly the commercial model, but the rotation of trustees is important to keep the leadership, the oversight and the strategic control of the charity fresh.

Professor John Mohan: As you have probably gathered, it is not my specialist area, so I will just leave you with a wider point about the concerns of the inquiry. If I can put it like this, “anecdote” is not the singular of “evidence”; it is an anecdote. We have a lot of individual case studies from which we sometimes make generalisations in this field—one-offs, such as Kids Company, for example, or a single chief executive’s high salary suddenly becoming a brush with which the whole population is tarred. I would argue for a much more wide-ranging and systematic approach to evidence around these questions.

The Chairman: Do any of my colleagues have any other questions?

Lord Hodgson of Astley Abbotts: Could I just say one thing?

The Chairman: Please.

Lord Hodgson of Astley Abbotts: It is very easy, when coming before committees such as this, to end up talking about the negatives. The charity sector does a lot of very, very good work and it is important that we keep it in perspective. Lord Bichard is quite right in that it is very easy to sound critical of people who are doing their best and working hard. Of course we can always do better and this Committee will make some splendid recommendations, but we need to remember that there is a lot of good work going on there all the time.

The Chairman: Yes, that is one of the things that we are very concerned about—the positives of what is going on and to recognise those. Thank you very much indeed for coming. We really appreciate your presence, both Lord Hodgson and Professor Mohan. Thank you very much.