

## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

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### *The role and contribution of charities*

1. We are living through a time of profound economic, social and technological change and the environment in which charities are working is altering dramatically. We do not believe that this is a temporary aberration: such disruptive changes are likely to become the norm. (Paragraph 9)
2. However, charities have always helped society through periods of upheaval. We are confident they will do so again. It is our intention that the recommendations in this report will go some way to ensuring that they do. (Paragraph 10)
3. We recognise and celebrate the enormous range and variety within the charity sector. The large charities, that raise the most money and are most widely known, are only a tiny fraction of the 167,000 registered charities in England and Wales, let alone the many social enterprises, small voluntary bodies and community groups besides. We acknowledge that the issues raised in this report may affect different parts of the sector in different ways and that while there are common principles for charities, practices may necessarily diverge. (Paragraph 49)
4. Charities play a fundamental role in our civic life. They are often in the front line of support for the most vulnerable and are therefore in the best place to assess their needs. They not only provide. They inspire and innovate and through their advocacy help shape our laws, government policies and society as a whole. (Paragraph 63)

### *Improving governance and accountability*

5. We believe that the Government, the rest of the public sector and the private sector should foster robust and meaningful partnerships with the charity sector and support and facilitate charities whenever possible. (Paragraph 65)
6. Robust governance requires good structures, processes and behaviours. It demands strategy and foresight as well as a culture of scrutiny, support and challenge. While the whole sector should aspire to a high standard of governance, larger charities will necessarily have to adopt more rigorous processes than smaller ones to ensure they meet that aim. (Paragraph 76)
7. We welcome the work to update the voluntary Governance Code for the charity sector. We also welcome the Charity Commission's decision to refer to it as the benchmark for governance in the charity sector. (Paragraph 77)

### *Trustee skills and training*

8. We believe that it is essential that charities regularly undertake skills audits of their trustee boards to ensure that they have the necessary capabilities to undertake their vital governance role. For large charities, this should be an annual occurrence. (Paragraph 89)
9. Training and development are essential for charity trustees in order for the sector to work effectively. It is the responsibility of charities' chairs to ensure that this vital activity takes place. We recommend that the sector's infrastructure bodies review the training opportunities that exist, identify where there may be shortcomings in provision, particularly for small charities,

and take action to address them. They could assist charities by publishing collated information about available training and providing a platform for users to rate the value of courses they have accessed. (Recommendation 1) (Paragraph 97)

10. Induction processes are essential so that new trustees have a well-established understanding of the charity and of their responsibilities. Trustees need to feel confident and well-informed in order to provide strategic direction, oversight and challenge. We welcome the inclusion in the Governance Code of appropriately resourced inductions for all new trustees. (Paragraph 98)
11. We believe that smaller charities would benefit from having free access to a template induction process. We recommend that grant-making bodies consider applications from infrastructure organisations and governance professionals to develop such a best practice template. (Recommendation 2) (Paragraph 99)
12. There is greater potential for charities to benefit from better connections to the business community and vice versa. We recommend that the Government takes fresh measures to get more senior business leaders directly involved with charities to foster those relationships and maximise their value. (Recommendation 3) (Paragraph 100)

#### *Board diversity and turnover*

13. We acknowledge that recruitment of trustees is challenging for many charities, especially when seeking trustees with particular skill sets. However, we believe that trustee diversity is important, as boards with a range of skills, experiences, ages and backgrounds are likely to lead to better governance. (Paragraph 105)
14. We believe that more can be done by the Government, the Charity Commission, infrastructure bodies and by charities themselves to promote trusteeship and incentivise people to become trustees. In particular, there is greater scope to enable disadvantaged people to become trustees and thus improve diversity. (Paragraph 106)
15. We recommend that the Office for Civil Society works with other departments and business leaders to develop a new initiative to promote trusteeship to employees and employers and thereby encourage greater participation and diversity. The initiative should encourage employees to see both the selfless, charitable value of trusteeship and the personal benefits in the form of skills and career development. Employers should be encouraged to give greater recognition to trustee roles in recruitment and progression of their staff. (Recommendation 4) (Paragraph 107)
16. We further recommend that the Government holds a public consultation on the possibility of introducing a statutory duty to allow employees of organisations over a certain size to take a limited amount of time off work to perform trustee roles. (Recommendation 5) (Paragraph 108)
17. We agree that there should be a time limit for individuals to serve as trustees, along with a maximum term of office, and we endorse the proposed inclusion of such time limits in the revised Governance Code. We recommend that the materials and draft articles of association provided by the Charity Commission include a suggestion of time limits. (Recommendation 6) (Paragraph 113)

18. We recognise that in some circumstances, such as family trusts or in respect of the role of the founder of a charity, there may be good reasons for not imposing a time limit. We agree with Lord Hodgson of Astley Abbots that these charities should explain their reasons for this in their annual report in order to aid transparency. (Paragraph 114)
19. We believe that, irrespective of trustee time limits, charities should regularly review the operation of their boards and the tenure of their trustees and chair to ensure that their governance is sufficiently robust. For large charities, this should be an annual occurrence. (Paragraph 115)
20. We acknowledge the challenges that the Charity Commission faces in securing a diverse board, however the regulator cannot expect to hold the sector to a higher standard than it is able to achieve itself. We recommend that the Commission is mindful of the example it sets to the sector and that when filling future vacancies it explicitly seeks to recruit individuals with a range of skills, charity experiences and demographic characteristics, such as age, gender, ethnicity and geography. We expect to see the results of this approach in the next set of board appointments. (Recommendation 7) (Paragraph 119)

#### *Executive leadership*

21. Charities recognise that training and development for leaders and staff is important, however there are still significant shortcomings in terms of available training and levels of take-up. We therefore recommend that infrastructure bodies in the sector take the lead on working with government, academics and research institutions, and with the business community, to identify further opportunities to support and fund leadership programmes. (Recommendation 8) (Paragraph 128)
22. We agree that maintaining a separation of executive and oversight responsibilities is important for good governance. Governance is about making sure that charities do the right things, while management is about making sure that those things are done right. In a few cases, for the smallest of charities, we acknowledge that a complete separation of roles may be difficult, but it should remain the aspiration nonetheless. (Paragraph 133)
23. We recommend that the Governance Code Steering Group reflect in the Code the importance of executive and trustee relationships and the clear separation of their roles and responsibilities. (Recommendation 9) (Paragraph 134)

#### *Payment of trustees*

24. We believe that the voluntary principle of trusteeship is an important one and that trustees should not receive payment for undertaking the role. In highly exceptional circumstances, where people are otherwise unable to act as a trustee, it may be acceptable to consider some form of remuneration. The explanation and justification for such arrangements must be set out in the charity's annual report. (Paragraph 139)
25. More broadly, trustees should be able to claim relevant expenses to ensure that financial considerations do not unduly deter people from taking up the role. (Paragraph 140)

*Transparency, accountability and impact*

26. Accountability and transparency are essential for charities to ensure they function properly, deliver for their beneficiaries and retain the trust of the public. In order to respond to the greater expectations upon them, charities need to operate with a presumption of openness. We believe that it is important for all but the very smallest charities to have a simple website or public social media page to provide that transparency. (Paragraph 149)
27. We do not believe that significant additional regulation of the sector through increased mandatory reporting requirements would be desirable, as this would be a substantial bureaucratic burden on smaller charities. (Paragraph 156)
28. However, as we said at paragraph 149, we believe that it is important for all but the very smallest charities to have a simple website or social media page, and they should use that to set out their basic organisational and financial information. We recommend that public sector funders and other donors should evaluate the transparency of charities when considering requests for funding. (Recommendation 10) (Paragraph 157)
29. We recommend that the Governance Code Steering Group set out best practice suggestions for governance reporting by charities. This might involve charities including in their annual report a statement that they follow the Governance Code, or a similar specialist governance code relevant to their work, and report any actions they have taken over the year in light of the Code. (Recommendation 11) (Paragraph 163)
30. All charities should be seeking independent evaluation of their impact on their beneficiaries, in order to ensure that they are delivering for them and to demonstrate this to beneficiaries, funders and the public. The form of such evaluation may vary considerably, depending on the size of the charity and the type of work it is engaged in. We recommend that public sector commissioners assess such evaluation when awarding contracts. (Recommendation 12) (Paragraph 174)
31. We welcome initiatives such as Inspiring Impact that seek to assist charities in demonstrating impact. We recommend that the Government and the charity sector continue to pursue initiatives to better understand and promote the impact of charities. (Recommendation 13) (Paragraph 175)
32. We recommend that the Office for Civil Society (OCS) develops guidance for the rest of the public sector on how to set contractual impact reporting requirements appropriately and in a standardised fashion in order to reduce the bureaucratic burden on charities. The OCS should promote its work beyond the public sector in order to maximise its reach and value. (Recommendation 14) (Paragraph 176)
33. We endorse the suggestion in the Governance Code that charities should provide regular information to stakeholders that enables them to measure the charity's success in achieving its purposes. Such activity ensures that the focus of the charity and its stakeholders is centred on the needs of and outcomes for beneficiaries. (Paragraph 177)

## Funding: grants, contracts and commissioning

### *Contracts and commissioning processes*

34. The commissioning landscape is skewed against smaller charities. We recommend that contracting authorities embrace the recent changes to public procurement rules, which allow for smaller contracts, potentially giving charities better access to funding opportunities. (Recommendation 15) (Paragraph 193)
35. We welcome the Government's recent announcement on new measures to improve commissioning and help small charities get commissioned. We recommend that Government provides support for the development of voluntary sector bidding consortia, and takes steps to promote commissioning based on impact and social value rather than simply on the lowest cost. (Recommendation 16) (Paragraph 194)
36. We recommend that the Government's implementation group on commissioning practices considers the risks of larger organisations exploiting smaller charities through the commissioning and subcontracting process. We recommend that Government guidance on public sector commissioning should highlight these risks and encourage the design of contracts in a way which prevents such practice so far as is possible. (Recommendation 17) (Paragraph 198)
37. We believe it is important that local authorities and other public service commissioners adopt a partnership approach to service design and provision, involving charities, other voluntary bodies, service users and beneficiaries in the commissioning process from an early stage. We do not believe that meaningful relationships of this kind are common, and as a result charities are losing out on potential work and funds and commissioners are missing out on the values, knowledge of local needs and innovation that charities bring to service delivery. Public sector commissioners need to embed a genuine partnership approach in their structures, processes, contracts and cultures to ensure that the best possible results are achieved. (Paragraph 207)
38. Public service commissioners should also be encouraged to commission different types of services together. They should consider the potential of whole systems commissioning and whole person commissioning, with services and the commissioning process being designed around the needs of beneficiaries. This will result in better services for end-users and also long-term savings for commissioners. (Paragraph 208)
39. While the Government has taken some steps to promote the implementation of the Public Services (Social Value) Act 2012 and to encourage wider awareness of social value among public sector commissioners, we believe more could be done to maximise its potential. We welcome the Government's new review of the Act and hope that it will result in further improvements. (Paragraph 220)
40. We believe there is merit in considering the options for extending the Public Services (Social Value) Act 2012 as set out by Lord Young of Graffham. We recommend as a first step that the Government requires public sector commissioners to "account for" rather than merely "consider" social value. We further recommend that the Government sets measurable targets for the use of social value in commissioning and outlines the steps it will take if those targets are not met. (Recommendation 18) (Paragraph 221)

*Financial and planning challenges*

41. Where contracts—especially those involving Payment by Results—are used for service delivery, public sector commissioners should give greater consideration to the sustainability of organisations which are commissioned to deliver services. The Government should examine whether its guidance to public sector commissioners needs to be amended to ensure that this happens. At the same time, charities need to ensure that they have the cash flow to support undertaking work within such schemes. (Paragraph 230)
42. We recommend that the Government’s review of commissioning considers the impact of Payment by Results contracts on charities and examines what support the sector needs to engage in service delivery in a sustainable manner. (Recommendation 19) (Paragraph 231)
43. Charities cannot operate unless their core costs are met. We recommend that public sector commissioners should be expected to have regard for the sustainability of the organisations which they commission to deliver services. This should include an expectation that realistic and justifiable core costs are included in contracts. (Recommendation 20) (Paragraph 239)
44. Long-term contracts, with appropriate break clauses for performance and viability, should be the norm wherever ongoing service delivery is likely. Public sector funders should seek to commission services over a longer period wherever possible, to ensure that the services can be delivered sustainably by charities with the capacity to plan effectively for the future. (Paragraph 250)

*Contracts and innovation*

45. Tightly-prescribed contracts that dictate the process of delivery, rather than the desired outcome, can be the greatest inhibitor of innovation. We therefore recommend that public sector commissioners refrain from setting overly-detailed requirements for the mechanisms of service delivery. (Recommendation 21) (Paragraph 256)
46. Additionally, restrictive commissioning practices can hinder charities’ capacity for innovation by limiting their working capital. We recommend that, where appropriate, public sector commissioners pay or provide grants for charities to test new ideas and innovate during both the early scoping and development of services, and their later delivery. Such funding would generate positive returns, through supporting new and more effective ways of working, while also contributing to the sustainability of the charity sector and generating potential cost-savings for commissioners. (Recommendation 22) (Paragraph 257)

*A revitalised role for grants*

47. While acknowledging the increasing financial constraints that public sector bodies are under, we emphasise the important role that grant funding plays in ensuring the sustainability of charities, particularly with regard to innovation. There should be a wider understanding in the public sector of the use and potential of grant funding for charities and their beneficiaries, drawing on the practices of institutions such as the Big Lottery Fund. (Paragraph 264)
48. We recognise the significantly reduced funding available to local authorities. Nevertheless, grant funding has great potential in sustaining a healthy civil society and in enabling communities to benefit from charities’ capacity to

innovate. We recommend that local authorities should bear this in mind in the course of their financial planning, and maintain or revive grants wherever possible. (Recommendation 23) (Paragraph 268)

### **Supporting sustainability**

#### *Fundraising*

49. We welcome the action that has been taken to address the concerns about fundraising practices in the charity sector. The new Fundraising Regulator has only recently been established and therefore we do not recommend that further changes are made to the regulatory landscape for the time being. (Paragraph 275)
50. We are conscious of the concerns from the sector that the voluntary levy to fund the Regulator may be disproportionately burdensome for small- and medium-sized charities. We recommend that the new Fundraising Regulator continually monitors the impact of the levy, particularly on small- and medium-sized charities, and makes changes if appropriate. (Recommendation 24) (Paragraph 276)

#### *Economic and tax policy*

51. It is imperative for the charity sector that tax policies and processes are structured to ensure that charities are able to maximise their income and that bureaucracy is kept to a minimum. (Paragraph 282)
52. We welcome the Government's changes to Gift Aid as part of the Small Charitable Donations and Childcare Payments Act 2017. We recommend that the Office for Civil Society works closely with Her Majesty's Revenue & Customs (HMRC) to examine whether there are further changes that would help charities maximise the value of Gift Aid and minimise bureaucracy. (Recommendation 25) (Paragraph 283)
53. We recommend that the Office for Civil Society works with HMRC to ensure that the needs of charities are high on the agenda in relation to future changes to VAT and the National Living Wage. (Recommendation 26) (Paragraph 284)
54. We recommend that the Office for Civil Society works to improve significantly the awareness and availability of payroll giving by companies. In addition, there is no excuse for any Government department not offering payroll giving to their employees. The Government must set an example in this regard by ensuring that payroll giving is offered to staff as standard by all departments and executive agencies. (Recommendation 27) (Paragraph 285)

#### *Infrastructure bodies*

55. Small charities in particular need access to timely advice and support, and infrastructure bodies play an invaluable role by providing guidance and services. As with charities themselves, they are diverse, and come in different sizes and have different focuses depending on their intended beneficiaries. (Paragraph 290)
56. Infrastructure bodies must ensure that they work together effectively, both to ensure they survive and so that they can improve the services they offer charities. They should explore collaborative service models to raise awareness

among charities of the support available, and improve the accessibility and coherence of this support. (Paragraph 291)

### *Role of volunteers*

57. Charities are the primary conduits for volunteering in the United Kingdom and as such they play a very valuable role in civil society. Charity law and policy should promote and support the role of volunteers, and constraints on volunteering should be reviewed and addressed. (Paragraph 309)
58. Harnessing and maximising the efforts of volunteers is central to the principle and the practice of many charities, and comes with a cost. Volunteers may need managing, supporting and training. Investing in volunteers, where possible, is a way of respecting their contribution as well as increasing their value to the charity. (Paragraph 310)
59. Funders need to be more receptive to requests for resources for volunteer managers and co-ordinators, especially where charities are able to demonstrate a strong potential volunteer base. We recommend that Government guidance on public sector grants and contracts is amended to reflect this and set a standard for other funders. (Recommendation 28) (Paragraph 311)
60. There is scope for further efforts by the Government to allow people to incorporate volunteering into their lives. We recommend that, in line with our earlier recommendation on trusteeship (see paragraph 107), the Office for Civil Society should work with other departments, the public sector and businesses to encourage greater flexibility for employees to take time off for charitable work. (Recommendation 29) (Paragraph 312)
61. We welcome the Minister's review of full-time volunteering by young people. This should be encouraged, by Government, by infrastructure bodies and by employers, with the caveat that volunteering should be a springboard to, not a substitute for, paid employment. Getting young people volunteering early in life may also have longer-term benefits by encouraging a future willingness to volunteer. (Paragraph 314)

### *Expectations and trust*

62. We believe that charities continue to enjoy a very positive public reputation—one of which other sectors would be envious—and are a highly valued part of public life. (Paragraph 324)
63. That trust cannot be taken for granted, however, and charities should continue to be mindful of the impact of recent negative publicity, as well as of any indication that trust may be declining. The sector has learned hard lessons and charities need to be conscientious and scrupulous in order to retain that trust, maintaining their focus on transparency and accountability. We believe that the recommendations in this report will help them to do so. (Paragraph 325)

### *Mergers and closures*

64. We believe that mergers can often be considered a measure of success and maturity, and a reflection of a charity keeping a proper focus on its beneficiaries. Staff, trustees and volunteers should reflect upon the possibilities for mergers and consult with their beneficiaries where opportunities may exist. Mergers should not be seen as a sign of failure. (Paragraph 342)



65. We note that it would be easier to avoid overlapping work in the charity sector by discouraging charities with similar purposes from being established where existing charities in the same field are working well and delivering for their beneficiaries. However, we would not want to discourage people from establishing new charities, which could be the effect of such a system. We also note that only the Charity Commission could realistically undertake such a task, but that the Commission currently has neither the structure nor the financial capacity to carry out this work. (Paragraph 343)
66. We welcome the Law Commission's work to address some of the legal and technical barriers to charities looking to merge. We recommend that the Government brings forward the Bill at the earliest opportunity. (Recommendation 30) (Paragraph 344)
67. We recommend that the Charity Commission, as part of its emphasis on enabling regulation, considers what support and guidance it can offer to charities seeking to merge, and provides signposts to help that may exist elsewhere. The Commission should take a positive approach to assisting charities that choose to merge and assist in removing any barriers that may exist, notably with regard to liabilities such as pension arrangements. (Recommendation 31) (Paragraph 345)
68. Time-limited structures are a good option for ensuring that small charities such as memorial foundations are able to dissolve when they have delivered on their charitable objectives. A merged or closed charity does not necessarily mean a failed charity. (Paragraph 351)
69. We recommend that the Charity Commission include options for time-limited structures in the model governing documents that they produce for charities, as such clauses would prompt new charities to consider their lifespan from their inception. (Recommendation 32) (Paragraph 352)

### **Charities and digital technology**

70. The capacity of the charity sector to embrace digital technology varies considerably, and while some are at the cutting edge of the use of technology, others risk organisational stagnation and decay by not embracing it successfully. This is a risk to the charity sector. (Paragraph 380)
71. Charities should actively consider including a digital trustee role on their boards. We note the potential benefits to board diversity that would be likely to result from adopting such an approach. (Paragraph 381)
72. We recommend that infrastructure bodies share knowledge and best practice on innovation and digitisation across the sector and co-ordinate training opportunities, at minimal cost, for charities with limited digital experience. We recommend that the Big Lottery Fund provides support to enable this. (Recommendation 33) (Paragraph 382)
73. The technology sector should work to ensure that charities can develop the skills and capacity to fully engage with the digital realm. This may include the more widespread promotion of training and development opportunities, particularly to smaller charities with limited experience of digital engagement. (Paragraph 383)

### Alternative forms of charity finance

74. We welcome the Government's efforts, through the Access Foundation, to broaden the accessibility of social investment to small- and medium-sized charities. (Paragraph 403)
75. The social investment market is unlikely to reach its potential unless further resources are put into the investment readiness of smaller charities. We welcome the endowment granted to the Access Foundation for this purpose. The Government must continue to monitor this issue and provide additional resources to support charities to ensure that they are not left behind as the market expands. (Paragraph 410)
76. We welcome the measures being taken in the sector to seek to reduce the transaction costs for social investment and to promote the market to a wider range of investors who would be willing to accept lower rates of return. Government and sector leaders should do more to address the reasons for high transaction costs and work to bring them down. Investors should also be encouraged to have more realistic expectations of the potential for returns from social investment. (Paragraph 418)
77. Social Impact Bonds can be a useful tool for both charities and the public sector in reducing the cost risk of particular interventions. However, they are only relevant where they produce a saving that can be transferred to a private investor, and that limits their potential contribution to the mix of alternative finance options for charities. (Paragraph 425)
78. The expectations placed upon Social Impact Bonds have yet to materialise and we believe the Government's focus on them has been disproportionate to their potential impact. While the Government should redouble its efforts to make them work better, future public funding should be reoriented towards financial products with application to a wider range of charities and beneficiaries. (Paragraph 426)

### Regulation and the role of government

#### *Devolution*

79. Regional devolution in England is a significant opportunity for charities to develop stronger and closer relationships with decision-makers and commissioners and to become more closely involved in the design and delivery of services. (Paragraph 461)
80. While the Government has been willing to devolve powers and budgets in certain areas, we believe it has been insufficiently committed to engagement with charities and other external bodies to help devolution work in practice. (Paragraph 462)
81. Central Government needs to understand better, and take account of, the implications of devolution for charities and civil society. There needs to be a proper dialogue between charities and new regional administrations at every stage of the devolution process, and voluntary sector representatives should be involved in leadership structures and decision-making where appropriate. We recommend that the Office for Civil Society works closely with the Department for Communities and Local Government and infrastructure bodies to ensure that this happens. (Recommendation 34) (Paragraph 463)

82. In addition, the Government must improve the way it consults with devolved administrations and infrastructure organisations when developing legislation on reserved matters which may impact charities in Scotland and Northern Ireland. (Paragraph 464)

*Compacts and engagement with the sector*

83. Compacts are a valuable statement of principle about the relationships between government, both local and national, and the voluntary sector. We recommend that, where compacts do not currently exist, they are re-established in consultation with the sector. (Recommendation 35) (Paragraph 474)
84. We also recommend that, where they have not done so recently, national and local government should review their compacts in collaboration with the voluntary sector to ensure that they continue to be fit for purpose, reflecting the changing role of charities. They should restate their intent to apply the principles of the compact and include a mechanism for review to ensure that they are observed. (Recommendation 36) (Paragraph 475)
85. We note that charities rarely feel fully consulted about proposed new laws and regulations, and that this increases the risk of unintended consequences. This particularly applies to smaller charities, which do not have the resources to devote to additional legal and regulatory compliance. (Paragraph 482)

*The role of charity advocacy*

86. We believe that Lord Hodgson of Astley Abbotts' proposals for a review of the rules set out in the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 are eminently sensible and will provide reassurance to charities that they will not face censure for carrying out ordinary campaigning activity during election periods. We recommend that the Government implement Lord Hodgson's recommendations in full. (Recommendation 37) (Paragraph 488)
87. We welcome the Government's decision not to proceed with a restrictive anti-advocacy clause in public sector grant agreements. (Paragraph 492)
88. Charities are the eyes, ears and conscience of any society; advocacy is a central part of their work and a sign of a healthy democracy. Whilst charities are quite properly regulated in their campaigning activities, particularly at election times, any new regulation or guidance should clearly recognise that advocacy is an important and legitimate part of their role and be set out in clear and unambiguous language. (Paragraph 495)
89. Just as charities must be judicious in their activities, in order to remain politically impartial, the Charity Commission must take care in its public communications to ensure that it retains the confidence of the public and the charity sector. (Paragraph 496)
90. Poor consultation and ill-thought-through policy proposals have caused serious unease and disruption to the work of charities. We recommend that the Government reviews its approach to engagement with the charity sector before policy announcements are made, with a view to ensuring that charities feel better informed about legal changes which may affect them and have a greater opportunity to provide input on new policies. (Recommendation 38) (Paragraph 497)

*Impact on charities of the UK's departure for the European Union*

91. As part of its ongoing engagement with the charity sector in relation to the UK's withdrawal from the EU, the Office for Civil Society should undertake an audit of the potential impact of Brexit on charities. This should include the impact of loss of funding as well as on research collaboration. We recommend that the OCS publish its assessment by the end of 2017. (Recommendation 39) (Paragraph 504)

*Regulation of the charity sector*

92. We commend the Charity Commission's efforts to improve the effectiveness of its regulatory functions, particularly in the context of reduced resources. There is much still to do until it can be considered to be fully effective, however. (Paragraph 510)
93. Charity staff and trustees who have concerns with regard to their charities should be encouraged to report them to the Charity Commission where appropriate. We recommend that the Commission makes clear that those charities which are proactive in reporting issues to them will be supported to help put things right. (Recommendation 40) (Paragraph 511)
94. In light of the Charity Commission's reduced budget, and its necessary focus on regulatory work, it should seek to be clearer to charities about what support it can and cannot offer. It should also be more proactive in helping charities to find the most appropriate sources of external support and advice. (Paragraph 520)
95. We recognise the resource pressures and the wider economic climate that have led the Charity Commission to consider charging charities an annual fee to be on the register. Any charging model must ensure that the burden does not fall upon small charities which will not be able to afford it. This should be established not just at the outset of any charging regime, but by continual monitoring and testing of the impact of charging, with changes made to lift the burden on charities where necessary. (Paragraph 530)
96. A mandatory charge for registered charities would mark a fundamental change in the sector's relationship with its regulator. No longer merely an independent overseer, it would become a body in which charities themselves have a financial stake, and to which they are required to divert funds which might otherwise be spent on their beneficiaries. Charities might, not unreasonably, seek to be represented on the board of the Charity Commission to ensure they have a say in how the money is spent. It might also prompt calls for the regulator to become fully independent of government. (Paragraph 531)
97. It is not yet clear that the Charity Commission has taken full account of the potential impact of charging for regulation. A charge would by definition have an immediate financial impact on charities and their beneficiaries. It may also have an impact on the confidence of the public, who may question why their donations are being used to subsidise an arm of Government. Nor is it clear that the Commission yet understands how charities' expectations of it as a regulator may change if they are required to pay for its upkeep. If charging is mishandled, there are significant risks for the strength of the charity sector, its relationship with the regulator, and overall public confidence and trust in charities. (Paragraph 532)

98. Because of these issues, we have grave concerns about the Commission proceeding with any proposal to charge charities. We recommend that the Charity Commission makes clear how a charge would benefit charities and strengthen the sector overall. To achieve such clarity, the Commission must be transparent from the outset as to how additional revenue from charities would be spent, and what services would be delivered or enhanced in return. The Commission must set out how it envisages its supporting and enabling role developing or expanding if a charge for registration was introduced. (Recommendation 41) (Paragraph 533)
99. We welcome the assurance given to the Charity Commission by the Treasury that any funding from the sector would be in addition to, and not a replacement for, funding from the Government. This is essential. The purpose of any charge must be to enhance the ability of the Commission to operate effectively, not to take money from charities to help Government meet its fiscal targets. (Paragraph 534)
100. We recommend that the Treasury maintains adequate direct funding of the Charity Commission, irrespective of any proposal to charge charities. (Recommendation 42) (Paragraph 535)