

HOUSE OF LORDS

Select Committee on Charities

Report of Session 2016–17

Stronger charities for a stronger society

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SUMMARY

Charities are the eyes, ears and conscience of society. They mobilise, they provide, they inspire, they advocate and they unite. From small local organisations run entirely by volunteers to major global organisations with turnover in the hundreds of millions, their work touches almost every facet of British civic life.

We are living through a time of profound economic, social and technological change and the environment in which charities are working is altering dramatically. These changes have posed new challenges for charities, resulted in some high-profile failures, and led to greater scrutiny of the sector than ever before. However, the overwhelming majority of charities continue to do excellent work and trust in the sector fundamentally remains strong.

The funding of charities has changed significantly over the last decade. Public sector grants have been replaced in most instances with contracts, often with complex commissioning processes. These have disadvantaged smaller charities, which struggle to bid for services at scale, and constrained the valuable innovation that charities can bring to service delivery. We therefore 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. We also recommend the strengthening of social value considerations in public sector commissioning, to recognise the added benefits of charities' involvement in service delivery, and urge local authorities to consider grant programmes wherever possible.

Charities have faced challenges in funding their core costs for many years. However, this has been exacerbated by the move to contract funding, which is often tightly defined and does not allow for costs incurred outside the specific terms of the contract. Separately, there has been pressure on charities to reduce "back office" costs and an increasing expectation that all money donated should go to the frontline. The result has been further pressure on charities' viability and sustainability. Charities cannot operate unless their core costs are met. We recommend that public sector commissioners should have regard for the sustainability of the organisations which they commission to deliver services and that realistic and justifiable core costs should be included in contracts, just as would happen in the private sector. We also recommend longer-term contracts, wherever possible, to ensure that the services can be delivered sustainably by charities with the capacity to plan effectively for the future. We propose that funders should provide more resources for volunteer managers so that charities can make the best possible use of the generous contribution of their volunteers and support their efforts.

Good governance is fundamental to a strong charity sector. Charities need strong governance, with robust structures, processes and good behaviours, in order to deliver effectively for their beneficiaries. We call for new efforts to provide training and development for trustees and recommend that charity boards should undertake greater self-reflection, examining their behaviours, processes and skills. We also believe that infrastructure bodies need to identify the shortcomings in provision of governance advice and training for charities and do more to raise awareness of the support that currently exists.

We have concerns about the lack of diversity among trustees, which limits the experience and knowledge of charity boards. Among our recommendations to

remedy this, we believe that the Government should hold a public consultation on 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.

Charities' record in the use of digital platforms is mixed. While some charities are at the cutting edge of new technology, others have yet to realise its potential with regard to fundraising, volunteering and communications. To raise awareness of their work, and be transparent and accountable, all but the smallest charities need to have a simple website or social media page. In addition, charities should actively consider including a digital trustee role on their boards.

Social investment has been heavily promoted by Government as a new form of income for charities. However, alongside the potential advantages, there are also barriers, particularly for smaller charities which may not have the capacity to take investment or for which investment may not be suitable. Government and sector leaders need to do more to address the reasons for high transaction costs and work to bring them down. In particular, expected rates of return can be prohibitively high, and investors should be encouraged to have more realistic expectations of the potential for returns from social investment.

Alongside all these changes, the Government needs to improve the way it consults the charity sector when developing new policies. It caused unnecessary concern and pressure as a result of the proposed "anti-advocacy" clause in grant awards and in relation to the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014, both of which threatened the vital advocacy role of charities. We also believe there should be better consultation with the devolved administrations and infrastructure organisations when developing legislation on reserved matters which may impact charities in Scotland and Northern Ireland.

Withdrawal from the European Union is bound to have an impact on the charity sector, with estimates that the sector receives around £200m a year from the EU, primarily through the European Social Fund. We recommend that the Office for Civil Society undertakes an audit of the potential impact of Brexit on charities and brings forward proposals to address any negative effects.

The role of the Charity Commission has come under particular scrutiny in recent years, following inquiries by parliamentary committees and the National Audit Office. We are encouraged by the subsequent progress the Commission has made, but we believe it has more work to do before it can be deemed a fully effective and efficient regulator. One particular area on which it might focus is charity mergers, where there is scope for more support and guidance.

The Charity Commission is currently considering whether to charge charities in order to fund part of its operation. We raise concerns about the impact of a charge, both for the charity sector and for the Commission itself. If the Commission chose to proceed, it would need to be clear about how a charge would benefit charities and strengthen the sector overall. Any charging model must ensure that the burden does not fall upon small charities which will not be able to afford it.

Charities face greater operational and environmental pressures than ever before, but their principle is enduring and charities have always helped society through periods of upheaval. We are confident they will do so again.