

DSC submission of evidence to

The House of Lords Select Committee on Charities

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1. Introduction

1.1. DSC's interest in the consultation

The Directory of Social Change (DSC) is a charity that helps other charities, through training, research and policy/advocacy work. We are entirely independent of government, and self-funded through the sale of books and services. Thus DSC does not itself seek donations from members of the public. We are a well-established trainer in the area of fundraising and we help charities raise funds through our fundraising databases. Through these we are regularly in touch with tens of thousands of charities annually. These are informed by our continuous high-quality research on funders, which puts us in a unique position as experts on the fundraising landscape. We also train charity staff and volunteers and publish books on all areas of charity governance and management. Through our policy and research arm, we work to promote and defend the value of the voluntary sector.

1.2. Response to the committee's questions

The Lords Select Committee on Charities has posed a series of questions on a wide range of topics. As some of these topics are more in-line with our own areas of expertise, this response paper does not touch on all questions. Additionally we felt that we have evidence worthy of consideration which did not necessarily fit in with the posed questions. Therefore we are offering our evidence organised according to theme as opposed to as responses to individual questions.

2. Evidence under themes

2.1. Pressures and Opportunities

2.1.1. Rising demand vs. declining support

Across the sector demand on the services of charities is rising. The situation of many of our beneficiaries has greatly worsened over the last few years and it is no surprise that a study by LocalGiving found that **75% of charities experienced increased demand** for their services last year. Homeless charities are faced with **55% more people sleeping rough** than they were five years ago (DCLG), and last year alone saw food banks experience a **163% increase in its provision of three days emergency food** compared to the previous year (The Trussell Trust).

This means that increased pressure is being placed on the resources of charities, however charities are not getting the support that they need, especially from government and business. Small charities are the worst affected. In the five years from the recession of 2008 the **income of small and medium sized charities (those with an income less than £100,000 a year) dropped by up to 44%** (Lloyds Bank Foundation for England and Wales). This is a huge problem as while these are small organisations, they make up the majority of the sector accounting for approximately 85% of all charities in the UK.

2.1.2. Decline of government grant making

The government's shift away from grant making to charities in favour of contracts also puts pressure on charities and how they work. As a coordinating member of the **Grants for Good**

campaign we are regularly in conversation with charities that have lost grant funding from central and local government as services are tendered out in contracts which are won by private sector providers. In the last decade the total value of **government grants to charities has fallen from £6bn in 2003/04 to just £2.5bn in 2015**, while contracts have risen exponentially (NCVO).

This tectonic shift is having a profound impact on how charities work. Contracts greatly restrict charities and their ability to meet the growing needs of their beneficiaries. Grants give organisations freedom to respond to changing priorities, conditions and beneficiary needs. They reduce the risk of tying organisations down into services that aren't working, and can allow organisations to redeploy resources where they are most needed. Grants are especially good for small organisations, which succeed by drawing on resources in the community to deliver their project. By engaging the understanding and skills of the area's people, the needs and capacity of the community are more likely to be met and sustained.

2.2. Governance, Leadership

2.2.1. The debate on paying trustees

Charities in the UK rely on an army of volunteer trustees roughly one-million people strong. The voluntary nature of trusteeship is extremely important. These are people who give their time and skills freely because they care and support a particular cause. They have no financial self-interest in the charity and are therefore in a better position to take decisions in the best interest of the charity and its beneficiaries. Voluntary trusteeship is a cornerstone of the charity sector, and is one of the most important features of the sector, giving it its voluntary characteristic. This is what sets the voluntary sector aside from the private sector.

Recent scandals have brought the issue of good governance to the fore and reopened the debate about the benefits of paying trustees. However **no link has ever been demonstrated between payments for governors and good governance** as a brief look at the private sector would show. Trustees need to have the skills to be good trustees, which means they must be trained, and their skills must be constantly updated.

2.2.2. Developing trustee's skills

In spite of the huge importance of trustee knowledge and skills, a study by the Association of Chairs recently found that **more than half of charity chairs did not receive any developmental support in the last year**. Those that did often paid for it themselves. The problem is not that charities intentionally neglect this important investment in skills, but that they do not have the resources to do obtain training. As pointed out above, the overwhelming majority of charities (85%) exist on an annual income of less than £100,000, and their budgets are under increasing pressure. A fund is needed which can support financially the training of trustees at those charities which do not have the resources to do so.

The infrastructure is already in place, with training bodies already set up and currently delivering courses across the country which have proven to be effective. All that needs to happen is for those organisations to be resourced to deliver training to trustees which is free to the trustee and the charity.

2.3. Accountability

Charities can ensure they are accountable to their beneficiaries, their donors, and the general public by adhering to existing reporting regulations. Charities are already very accountable to these groups and indeed are continuously ranked highly in terms of public trust compared to other sectors.

The Charity Commission's online register of charities is a vital resource. It is easy to use, and it is easy to quickly obtain information on a particular charity, financial and otherwise. However there is very little awareness of the register among the public. According to the Charity Commission's report 'Public Trust and Confidence in Charities 2016', **50% of those surveyed had heard of the regulator. Only 7% of people had visited the Charity Commission website.** Thus it appears that much of the public's concern about how donations are being spent could be resolved if they knew where to find the information. The register could be promoted more and the mountain of data it contains could be used more effectively to demonstrate the impact that charities have.

2.4. Resource Management: Trusts and Foundations.

DSC is the leading research body studying trends in the trust and foundations sector. Last year we published 'Sector Insight: UK Grant-making Trusts and Foundations 2015'. From our research we know that **grants from trusts and foundations account for roughly £2.6bn of funds for charities every year** and are a lifeline for small charities up and down the country. We have found significant disparities in how each grant maker operates and how they put their resources to use. For example, the application criteria are much less clear with some grant makers, and many do not welcome informal contact prior to application which results in charities spending time on applications for which they turn out to be ineligible.

A significant problem also uncovered by our research is the **North-South divide in grant making** whereby the areas of higher income deprivation in the North receive a disproportionately lower share of grant money than the wealthier areas in the South-East.

Better coordination among trusts and foundations is needed to ensure resources are used in the best way possible to help communities most in need. Greater learning between grant makers is needed as well as the sharing of best practise. Government could play a key role in coordinating this, perhaps through the Big Lottery Fund which could use resources to act as a convener. The Grants for Good campaign, led by DSC and others, is working on producing '**Principles of good grant making**' document which will put forward best practise guidelines grant-makers should consider based on our knowledge of the sector.

2.5. The role of Government

Government's role with regard to the voluntary sector should be to empower charities to fulfil their objectives by pursuing policies and programmes which enable charities and preserves and respects their independence. This has not been happening in recent years.

2.5.1. The Charity Commission

One of the most important responsibilities of the government is to ensure the charities regulator is properly resourced. However the budget of the Charity Commission, which plays

a vital role in supporting charities, has been **slashed over the last eight years, being cut roughly in half and now standing at £21m**. In last year's Autumn Statement Earlier this year the Commission's budget was frozen until 2020 which means a **further cut of up to 8.5% in real terms**.

In this context the Commission has been forced to roll back the services it provides which strengthens charities and most importantly helps trustees to resolve problems and avoid mistakes, in favour of its compliance and policing role. For example the Commission used to run a telephone helpline from Monday to Saturday during working hours. **The helpline has now been cut back** to just 9am to 12 noon Monday to Friday and feedback suggests it is difficult to get through to an operator.

As the government is reducing the budget, the Charity Commission has been forced to consider introducing fees to charities for regulation. This would greatly compromise the regulator's independence and place an additional burden on charitable resources. It is unclear whether donors would approve of their donations being used in this way. Research by DSC shows a very low level of support for the move among charities (**approximately 5% of our sample supported having a regulator partially paid for by charities**).

2.5.2. The Big Lottery Fund

The government continues to compromise the ability of the Big Lottery Fund, the sector's most important grant maker, to independently make funding decisions. **In 2007 the government raided £425m from the fund in order to pay for the London Olympics**. This money has been denied from the sector during a time of financial hardship and uncertainty, however four years on from the London Olympics those responsible for repayments are refusing to commit to doing so. Furthermore, the recent redrafting of the Fund's policy directions threatens to closely align the fund with government priorities, completely undermining the principle that the Big Lottery Fund grant-making should be additional to, not a replacement for existing projects and services.

2.5.3. Company giving

The government has actively inhibited company giving, which needs to be boosted. We have witnessed first-hand the negative impact of the Government's decision in 2013 to remove the obligation for companies to provide information in their reports about their charitable donations and we have gathered evidence showing how these changes have made the charitable activity of leading companies significantly less transparent. Evidence from **our most recent research on company giving indicates that 41% of companies in our sample stopped declaring their total charitable cash donations**, despite evidence of significant charitable activity on their part.

About the Directory of Social Change

The Directory of Social Change has a vision of an independent voluntary sector at the heart of social change. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come in contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers and are constantly struggling to maintain and improve the services they provide.

We are not a membership body. Our public commentary and the policy positions we take are based on clear principles, and are informed by the contact we have with these organisations. We also undertake campaigns on issues that affect them or which evolve out of our research.

We view our role as that of a 'concerned citizen', acting as a champion on behalf of the voluntary sector in its widest sense. We ask critical questions, challenge the prevailing view, and try to promote debate on issues we consider to be important.

DSC's Principle of Responsible Regulation

DSC has a long-standing interest in charity law and regulation, especially the Charity Commission with which we work closely according to our principal of responsible regulation.

DSC believes that voluntary activity should be regulated responsibly. Some regulation is necessary to safeguard and maintain the interests of the general public, the beneficiary, and of the organisations and individuals being regulated.

However, it should have a demonstrable benefit and should aim to empower and strengthen voluntary activity rather than control it arbitrarily. We believe that:

- a) Regulation should be proportionate – it must strike a balance between perceived risk and intended benefit. It should recognise the diversity of voluntary sector activity and be developed and applied in a proportionate way.
- b) Regulation should be appropriate – it must be informed by the characteristics, capacity, and needs of the organisations and individuals that are being regulated. Insofar as is possible it should be focused, rather than acting as a blunt instrument that has unintended effects.
- c) Regulation should be enabling – it should seek to empower rather than control voluntary activity. The reasons for the regulation and the regulation itself must be properly understood by those institutions which are applying it. It should be accessible and intelligible to those being regulated. It should seek as far as possible to encourage self-regulation rather than focus simply on enforcement.