NPC's input to the NCVO Funding Commission

Introduction

NPC's ambition

New Philanthropy Capital (NPC) would like to see a charitable sector that is based on evidence of impact. NPC's response to The Funding Commission is that the best way for the charitable sector to make better use of its existing resources is to base its work on evidence of effectiveness. By basing decisions on evidence, charities and funders will increase their impact for good in society.

To be effective, charities should focus on activities that address a genuine need; use evidence of results to improve performance; optimise the use of resources; and be ambitious to solve problems rather than perpetuate their own existence. Good leadership is vital to being effective.

In turn, funders need to make good decisions based on evidence about which issues to address, how to address them, and which organisations to work with. They need to understand what makes charities effective and support their endeavours to become effective. How money is given can also have important consequences. Its size, length, and whether restrictions are placed on it affect how effective it can be. Any conditions attached to the funding also matter. All reporting back on how funding was spent involves a cost. If funders impose burdensome reporting requirements without considering the cost, then valuable resources are being diverted away from beneficiaries.

By charities and funders considering these issues, funding can be made more effective through targeting to where needs are greater, to approaches that are more effective and to organisations that are better run. Charities can then use this funding to be more innovative and sustainable.

The funding market

The charitable sector is funded by a number of different players, from grant-making trusts, to local authorities, to individuals. Giving from individuals makes up the largest proportion of the charitable sector's £33bn income at 38%. The public sector is the second largest funder, giving £12bn or 36%. Grant-making trusts make up 9% of the sector's income, the private sector gives 5%, and the sector internally generates through investments around 12%. The various funders give several types of funding in different amounts, with distinct aims and responsibilities. Statutory funders have the responsibility to ensure that public money is well-spent; grant-making trusts have responsibilities to the Charity Commission. The issues within the funding market will play out in separate ways for each type of funder.

However, despite these differences, all charities and funders can work together to make a sector that is based on evidence of impact. For the charitable sector to make the best use of its finite income it needs a funding market with the following:

1. funding that is allocated according to need and effectiveness;
2. funding that is designed so that it is proportionate to the need; and
3. monitoring that is useful and proportionate.

There are a number of issues that will affect the amount of money that will come into the charitable sector. However, the most significant transformation that could happen is serious change to the way that funding is given and designed. If good parameters for funding are established, then the charitable sector will become more effective.

How this submission is structured

This submission to The Funding Commission is structured around the three issues above: funding that is allocated according to need and effectiveness; funding that is designed so that it is proportionate to the need; and monitoring that is useful and proportionate. In all these areas, there are both established practices that need to

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change as well as emerging trends which may affect the charitable sector. Funding practices in these areas need to improve to allow charities to make better use of existing resources.

NPC's expertise is in advising grant-making trusts and high-net-worth individuals about their giving. Therefore this response concentrates on the approaches that these bodies should take. However, the advice often equally applies to other types of funders and donors such as retail givers or statutory funders.

NPC's recommendations for The Funding Commission

Within this submission, NPC describes a number of practices that have to change to make the charitable sector more effective. These issues are complex and interlinked, and will require both funders and charities to alter their practices. Of the issues described in this document, the three most important, which The Funding Commission should concentrate on changing are:

- allocation of funding across sectors;
- outcomes-based funding; and
- more effective monitoring.

Funding should be allocated across sectors based on the priority of needs and then how effectively the money can be used. In this way, money is given to people who need the most help, and to charities that will help them the most. This is the best way to change people's lives and tackle social problems. Unfortunately, too much funding is still given without the proper consideration of need and effectiveness.

Outcomes-based funding is a more recent trend in funding. However, funders who do not have much experience in this type of funding may need advice. They need to make sure that the risks involved in this sort of funding are held by those with the capacity to bear it—namely funders. The expectations of what can be achieved from outcomes-based funding need to be carefully managed.

The current system of monitoring in the charitable sector does not make effective use of its resources. The information that funders ask for is not used by most funders or charities—making the cost of collecting it an unwelcome diversion from helping beneficiaries. Instead, charities and funders need to give more thought to what information is able to be collected within a reasonable cost and would be helpful for charities to understand their work as well as for funders to evaluate their grants.

NPC hopes that The Funding Commission can do further work into these issues to help the charitable sector make better use of its resources.

1. Funding to be allocated according to need and effectiveness

For donors, funders and charities to help beneficiaries the most, funding and activities should be targeted to where the need is greatest. Doing this means that funding will go to help people who need it the most. It may seem that evidence for need is easy to come by, but some important issues can be hidden and will not be noticed by those donors and funders who only do brief research.

Unless there is evidence that what charities are doing is making a difference, there is the possibility that they may not be helping at all. People may imagine that mentoring is bound to be good for the people being mentored. However, evaluations sound warning bells. Unexpectedly terminating a relationship can have a worse effect than not having a mentor at all, because once again a young person feels abandoned. Big Brothers and Sisters of America's evaluations discovered that mentoring relationships of fewer than six months also led to bigger falls in attainment and self-worth than if there had been no mentoring.

As Martin Brookes, Chief Executive of NPC, argued in his speech to the RSA (see Appendix), not all charities are the same and performance amongst charities varies. Looking at evidence of effectiveness means that funders are able to discriminate among charities based on which will provide the most social impact.

1.1 Allocation across sectors

For the charitable sector to be most effective, funding needs to be given based on need and effectiveness.

However, people currently choose what cause to support based on their values; what they think might affect them; and their personal connections. This makes certain causes such as prisoners always unpopular. Other issues go relatively unnoticed and are therefore under funded—eg, in 2008, autism research charities only had an income of £1.2m compared to UK spending on cancer research of over £1bn.

Relatively speaking, it is easy to find evidence that the people charities work with are in need. Charities often campaign on the basis of need, and everyone comes into contact with people who need help, from rough sleepers to disabled children. However, this evidence does not represent all needs. Many needs are hidden (eg, domestic violence) and more popular causes will attract more funding.

Statutory funders generally assess needs more regularly and more thoroughly than independent funders do. Local authorities are required to do an assessment of the needs in their areas before giving out funding. However, independent funders do not have the same responsibility. Often they are not so concerned about assessing and prioritising needs or may not have the capacity to do it. This means that they may not be supporting those causes which need the money the most.

Because independent funders do not assess needs regularly, they are not as responsive as they could be. This could become more of a problem in a recession, as needs can change quickly, and government funding can be cut. This lack of responsiveness may result in a lag while independent funders struggle to keep up with changing government priorities proving very challenging for charities.

The charitable sector needs dynamic needs assessment if it is to be responsive to beneficiaries.

1.2 Allocation across charities

Alongside the high-level examination of need to establish which cause is best to support, funders and donors also need to target which charities to support carefully. As well as more popular causes, there are also more popular charities and interventions.

Brands of charities can be very powerful in attracting funding, especially from retail givers. In the 25 years between 1977/1978 and 2002/2003, only five out of the top ten fundraising charities had changed despite a huge increase in the scale of the sector.

To counteract the powerful effect of brands, charities need to provide more information about their effectiveness. Donors and funders are interested in making sure that their money goes to help people—as seen by the general discourse about administration costs. However, they often do not have the information to judge need and effectiveness properly. If information about effectiveness were more readily available, donors and funders could use that to judge which charities to support. This would mean that donors would not have to base their funding on branding, but instead the most effective charities would get the support.

Funding based on effectiveness would be less important if there were an infinite amount of money available to the charitable sector. But the charitable sector needs to maximise its finite resources to make the most impact on social problems. As Martin Brookes, Chief Executive of NPC, argued in his speech to the RSA, performance amongst charities varies and charities should provide evidence of their results so that funders can discriminate and choose the best charities. This speech was widely welcomed, showing the public's desire for better information about the results of charities, and better ways to choose between charities than brand.

If the effectiveness of approaches is not looked at objectively, then certain types of interventions may be overlooked. For example, working with paedophiles to reduce their inclination to harm children is an effective way to tackle child abuse. But giving money to help paedophiles is unappealing and therefore this area is overlooked. This could ultimately result in more harm to children. There are also certain activities that do not get the funding they deserve, eg campaigning or infrastructure of charities. NPC's report on campaigning, *Critical masses,* says that although data is scarce, a number of surveys show that funders do not like to fund campaigning work, and Association of Charitable Foundations has recently produced a leaflet encouraging funders to support this area.

1.3 Outcomes-based funding

As stated in the previous section, it is important that funding is given to the most effective charities and approaches if beneficiaries are to get the most benefit. Therefore the move for more and more funding to be given based on outcomes should be welcomed by the charitable sector. Statutory funders, grant-makers and high-net worth individuals are all very concerned about the outcomes their funding will generate.

However, as with other changes in the way that funding is given, this has the potential to go wrong if 'outcomes' are not interpreted well or if the expectations are too high. Funders have to be careful that they do not expect charities to do too much. Outcome funding is driven by the concept of value for money and but value is hard to measure. What would be a reasonable outcome to expect for one person might not be reasonable for another—eg, a charity might be able to help an 'average' young person into employment within three months, but another young person with a drug habit and literacy problems will take a lot longer. The effectiveness of approaches will even vary on people in very similar circumstances.

This can be a particular problem for payment by results funding. Since charities often work on a small scale, a small variation in how people respond to their approach can mean a big difference in terms of payment when it depends on results. This way of funding does not take into account the volatility involved in charities' work, and it needs to be carefully managed when it happens. The risk in the charity-funder relationship should be borne by the funders rather than charities. Funders need to be aware of how external events can affect charities. For instance, even a large charity helping get people into employment will be affected by the recession making it much harder to find jobs. If they are funding charities to help people achieve certain outcomes, funders should be mindful of where the risks to those results lie.

If outcomes-based funding is badly applied, it has the potential to mean that only outcomes that can be easily measured will be funded, which risks making a lot of work unpopular to fund. NPC's report on campaigning, *Critical masses,* states that this may already have happened with campaigning. Campaigning is notably hard to measure and attribute outcomes, which means charities struggle to show funders a causal link between their money and any outcomes that might have happened. Funders are also unsure what milestones to expect from campaigning charities. It is important that funders help charities measure more intangible outcomes as well as those that can be easily shown with statistics.

As more funding is based on outcomes, charities and funders need to think about what is realistic to expect, and be ready and able to challenge each other on unrealistic expectations. If both parties do this and use outcomes-based funding appropriately, it will drive the sector towards more effective approaches and mean more beneficiaries are helped.

1.4 Commissioning by statutory funders

One particular area of concern is commissioning by statutory funders. The move to greater funding by commissioning authorities has prompted a great deal of nervousness in the charitable sector. Although commissioning can involve both grant-funding and competitive tendering, charities say that statutory funders have moved to giving contracts through competitive procurement processes. Anecdotes from NPC's contact with charities and from the press have been overwhelmingly negative—with talk of badly trained commissioners, commissioners forcing charities to merge, the process effectively eliminating smaller charities, and commissioners only wanting charities to work on outcomes that can be easily measured.

At the moment, it is not clear if there is a systematic problem with commissioning, or if there are specific issues with bad practice. Therefore it is necessary to watch what is happening carefully, and make sure that lessons are learnt quickly once we have enough evidence about what is happening.

A particular concern is that commissioning may widen the gap between those charities who are good at engaging with the process and those that are not. The commissioning process is complicated and not always clear to charities, especially those who have capacity problems. Therefore it is likely that large charities with capacity to bid for tenders will get funding and will know the commissioning system better, and so will be more successful on subsequent attempts. Therefore the gap between charities with capacity and charities without capacity will widen. This will continue unless funders invest money in infrastructure for charities that need it. It is important that central office functions for charities are prioritised, and not just the frontline work, if charities are to succeed in a commissioning environment that demands more evidence of outcomes.

1.5 Devolution of statutory funding

Until recently, much of statutory funding was ring-fenced by central government so that it could only be spent on certain things. However, much of these funding streams are losing their ring-fences as more power is being given to local government. Instead local government have to set the priorities and funding for local areas.

This can present challenges for charities, as they have to make the case for their issue at a local level rather than making it, or having another organisation make it, at a national level. For large charities that work across several areas this means developing relationships with people in hundreds of local authority and health bodies. The varied structure of local government from region to region complicates this even further. The National Audit Office's *Public Funding of Large National Charities* report stated that of the 12 large national charities it reviewed, most had at least 200 separate public funding arrangements.

Small charities may find that they do not have the mass of affected people in their area to ensure that local authorities prioritise them. This can be a problem for issues that, while affecting a large number of people across the whole country, in any one area there will not be a large number of people affected in one year, eg, sexual violence. In these cases, small charities have to make sure that their local areas know about the issue and prioritise it.

However, devolution can present an opportunity for charities. The evidence shows that funding is more successful when there is a personal relationship between charities and funders. Devolution does present opportunities for charities as it means that decisions are made locally, and therefore charities have more chance of having personal relationships with the people making the funding decisions. To make this work, charities need to have the time and inclination to network at a local level.

2. Funding to be designed so that it is proportionate to the need

Funders should keep the interests of beneficiaries uppermost in their minds when structuring grants to charities.

Well-structured funding achieves better results by giving charities the ability to recruit and retain the best staff, opportunities to plan and innovate, resources to track results and the flexibility to respond to social, political and legal changes. Security of funding is essential for the long-term relationships that charities have with vulnerable people.

Poorly-designed funding harms charities by limiting their ability to develop their organisations and to plan, innovate, measure results, and respond to change. At its worst, poor funding creates uncertainty, making recruitment and retention of staff difficult, and damaging staff morale. This in turn affects the quality of service offered to beneficiaries.

Funding practices need to be flexible so that they can match the various and changing needs of the charitable sector. Funders should think about how responsive their application process is, whether the shape of their funding reflects the needs of charities, and whether there are other types of support that they should be giving. In particular, NPC's research shows particular issues for funders to consider are the size and length of funding; funding innovation; full cost recovery; and restricted funding.

2.1 Size and length of funding

Giving the wrong size or length of funding harms charities and beneficiaries. Funding that is too small can raise fundraising costs or can result in the charity only being able to recruit a part-time worker instead of a full-time one. Funding that is too big can also cause problems if it means too rapid growth of a charity. Short-term funding can result in low staff morale and high staff turnover as staff worry about their job. It can also mean that a charity does not have time to pilot projects properly and prove their effectiveness to ensure further funding. Smaller and shorter grants also increase the administration costs for charities and funders.

If funders want to give charities security to help people over the next ten years, they would be better to give longer and bigger grants where it is appropriate. This is particularly important in a recession where longer grants can give charities security to plan as well as reducing administration costs.

NPC's research on funding, *Granting success,* shows that funders know about the negative effect that the wrong size and length can have on funding, but this is often trumped by internal considerations of funders. Considerations like the capacity of the grant-maker, wanting diversity within the grant portfolio, or worries about charities becoming dependent on the grant-maker, mean that funders give inappropriate-sized funding to charities. Some of these considerations, eg, dependency and risk, can be dealt with in other ways without compromising the effectiveness of funding. Other considerations, such as wanting diversity in the portfolio have to be balanced against the competing demand of providing the most effective funding to help as many people as possible. *Granting success* gives a guide for funders about the size and length of grants.

Statutory funding is ahead of independent funding with regard to making the length of funding more appropriate to the need. The Treasury has made explicit the expectation that government departments will pass along their three-year funding settlements to charities so that they become the norm and not the exception. However, statutory funders still need to do more to make their funding more suited to the needs of charities.

NPC's *Turning the tables* and *Granting Success* research found a common theme in the lack of trust between charities and funders. This lack of trust results in funders demanding onerous monitoring, placing restrictions on how money can be used, or giving less money that a charity needs. However, funders said that when charities approached them earlier whenever there were issues, they tried to respond considerately. This was also the experience of charities that approached funders. The charitable sector needs more open dialogue between funders and charities so that unnecessary checks are not put in place.

2.2 Funding innovation

Independent funders often like to fund innovative projects rather than providing ongoing funding for work. NPC's research on the structure of funding, *Granting success,* found that this hinders charities because they have to repackage existing work into new work to make it interesting for funders. Charities end up playing a disingenuous game that drives them further away from what they have found beneficiaries want.

There is also a logical flaw in the model of independent funders and central government positioning their funding for charities as mainly for piloting new work. There is not an endless pot of local government funding to take on these new piloted ideas. NPC's work in the violence against women sector has found that piloted ideas are often not taken up by local authorities, especially if funders have not given charities enough time to prove the interventions. Instead, local authorities find themselves overwhelmed with competing demands for funding, and no-one in the charitable sector ever says that local authorities should discontinue their funding for a particular intervention, only that they should fund new work.

Evidence from past recessions shows that funding from local government is often severely cut in a recession, so this problem is likely to get worse. Local authorities are therefore unlikely to have any money with which to fund new projects. Therefore, independent funders and central government need to reassess whether innovative projects are the best use of their funding. It may be that some funding to help charities prove how effective their current interventions are would be more useful in helping charities to hold on to their local authority funding.

2.3 Full cost recovery

Full cost recovery—securing funding for all costs, including the direct costs of projects and all overheads—is gaining traction within the sector. NPC and acevo published a guide on this issue, *Full cost recovery: a guide and toolkit on cost allocation* in 2004 which is widely used. However, full cost recovery is still not automatically given by funders. Too many funders just give 10% for overheads, regardless of the cost base of the charity. The NAO report, *Public Funding of Large National Charities,* found that despite the Compact, charities reported that local authorities did not fund core costs and there were variances between the local authorities that seemed 'capricious.' This behaviour fuels the mistrust between funders and charities that can be so damaging to the charitable sector.

Funders and charities that do not adhere to the best practice principles of full cost recovery create deficits within charities. These deficits have to be met through additional fundraising or subsidised from charities' unrestricted funds. If full cost recovery is not achieved, the longevity of the organisation and the services that it provides are jeopardised. As funding sources become increasingly pressurised, funders need to ensure that the charities they support are able to thrive.

2.4 Restricted funding

Funders have a choice between giving unrestricted or restricted funding to charities. *Granting success* found that this choice was affected by a number of issues, managing reputation risk or managing dependency. NPC's research found that grant-makers should try to give unrestricted funding as often as they can, and where they cannot they should make the restrictions as flexible as possible. Funders may have to give restricted funding when:

- there is a mismatch between the funder's and grantee's mission;
- unrestricted funding could distort the charity's accounts;
- there are particular circumstances that make the funder very sensitive to reputation risk; or
- the funder is using restrictions to influence the grantee.

Restricted funding affects how flexible, innovative and timely charities can be. It can mean that they have less efficient central office functions. It also affects if they can respond to emergencies or extraordinary events, and can impact on their effectiveness. Restrictions also make the relationship between funders and charities less open. For these reasons, unrestricted funding should be given where possible.

Granting success shows that funders understand that unrestricted funding is more effective but they feel unable to give it themselves for a number of reasons. However, except in a few circumstances detailed above, funders could give unrestricted funding and enable charities to be more effective. Although grant-makers may have to change their practices to give unrestricted funding, this is justified in terms of the cost that restricted funding places on charities.

3. Monitoring to be useful and proportionate

Reporting back to funders is an important way to monitor the results of charities, and to check that the organisations are still well run. It is a vital part of the relationship between charities and funders. Since, this reporting costs money and time that could be spent on beneficiaries and therefore it is important that it is useful and proportionate. Funders need to concentrate on making sure the information they ask for is useful and will be used, and does not involve too much of a burden on charities.

NPC's reports on reporting, *Turning the tables* and *Turning the tables in England*, show the burden that monitoring can place on charities and examine ways to make monitoring better. *Turning the tables in England* estimates that charities spend on average 6% of each grant on monitoring and reporting. While this is not a large amount of money to pay in itself, it is a large amount to pay for information that it not used well.

3.1 Better reporting

Often funders impose monitoring requirement on charities without providing justification for what is required. This can mean that funders do not think about the costs involved in complying with these requests. NPC's report about charities and funders communicating results, *How are you getting on?,* shows that 68% of funders ask for results data on the activities that they have funded, but only 8% of funders always pay charities for the cost of this monitoring and 34% never pay. The *Turning the tables in England* research found that the imbalance of power between charities and funders has led to bad practices such as reporting requirement being added on after funding has been agreed.

In NPC's experience of funders and charities, it is not clear that funders use the data that they ask for to make decisions about future funding. The *Turning the tables* research found that charities do not believe that funders look at the outcomes data at all. The research also revealed that very few funders give any feedback to charities about the reports that charities provide.

Nor do charities find the information that funders ask them to gather useful: the *Turning the tables* research found that charities think that reporting is done largely for the benefit of funders and does not give charities the opportunity to look at their organisation as a whole.

Funders also need to think carefully about what information it is reasonable for charities to collect. Although many people are interested in the long-term results of charities, it is not practical to ask a small charity to do follow up on service users several years after they have used the service. Requirements need to reflect the differing capabilities of small and large charities.

Monitoring that is imposed thoughtfully can help the charitable sector: it gives charities an opportunity to review their activities and themselves and funders an opportunity to learn from their past grants. Funders and charities need to think about what is useful to them considering the cost involved.

3.2 Standardised reporting

Currently, different funders ask for a great deal of similar but slightly nuanced information, which takes a lot of time for charities to customise. The National Audit Office's *Public Funding of Large National Charities* report found that this was even the case between different statutory funding streams where the both the applications and monitoring arrangements differ greatly even if a similar service is being provided.

One idea that NPC piloted in its *Turning the tables* research is more standardised reports for funders. A standard report is not appropriate for all charities, and it works best where it is targeted at groups of similar funders. But if each charity created a standard report that could be sent to most if not all funders, rather than customising them for each funder, it would benefit the sector. Standard reports would lower the cost of reporting after an initial investment of time; would improve the quality of reports as charities can invest more into a standardised report than a customised one; would increase communication between charities and funders; and would help charities and funders identify their capacity needs. Standard reports could be a way that charities and funders could use their existing resources better.

3.3 Sharing information

When funders and charities share information publicly of their successes and failures, it makes it easier for others to learn and improve. Monitoring information should not just be shared with existing funders, but should be publicised more widely to help the sector. NPC is interested in the idea of a Results Library where charities could post their outcomes measurement widely allowing the sector would be able to learn which activities get the best results.

Conclusions

If funders and charities work together to address these issues the charitable sector could make better use of its existing resources. The people that charities and funders aim to help would benefit from funding that is based on need and targeted towards charities that have evidence of effectiveness. Beneficiaries would also profit from funding that is designed with beneficiaries in mind. And more appropriate monitoring would enable more money to help service users while enabling charities and funders to monitor what the money was spent on more usefully.

The Funding Commission represents an exciting opportunity to investigate ways that the charitable sector could change and use its resources better. NPC recommends that it concentrates its attention on three key issues.

- allocation of funding across sectors;
- outcomes-based funding; and
- more effective monitoring.

Appendix 1: About NPC

NPC is a charity that maximises the impact of donors and charities—it does this through independent research, tools for charities, and advice for donors. NPC is unique in combining a research team with a detailed knowledge of many of the UK's most pressing human welfare issues, with a consulting team experienced in working with donors and funders to develop and improve the effectiveness of their giving.

Over the last seven years, NPC's research agenda has covered a wide range of topics, from child abuse to full cost recovery. What all of these projects have in common is their ambition to improve the effectiveness of the charity sector, either by increasing the evidence base or by improving efficiency. This research can be roughly grouped into five themes:

- Building evidence of need and effective approaches;
- Building evidence of charity effectiveness;
- Research into efficient and effective funding approaches;
- Research into approaches to gathering evidence; and,
- Developing ways to share evidence more widely.

In doing this research, NPC has analysed over 500 charities in 42 sectors—looking at how effective their activities are; their impact on the sector; the leadership of the charity; and their finances.

NPC's consulting team has worked with numerous donors, including many trusts and foundations on how they approach their giving. This includes defining objectives; finding a focus which combines the donor's interest and resources with needs in the non-profit sectors; designing funding processes; and reviewing the results and impact of giving to improve practice.

Increasingly, this unique combination of research knowledge and consulting services is being called upon to provide donors with advice on where their funding can have most impact, given needs and donor interests.

Appendix 2: List of NPC reports

Community

- *Breaking the cycle: Charities working with people in prison and on release (2009)*
- *Short changed: Financial exclusion (2008)*
- *Lost property: Tackling homelessness in the UK (2008)*
- *Hard knock life: Violence against women, a guide for donors and funders (2008)*
- *When I'm 65: Ageing in 21st century Britain (2008)*
- *Not seen and not heard: Child abuse, a guide for donors and funders (2007)*
- *A long way to go: Young refugees and asylum seekers in the UK (2007)*
- *Home truths: Adult refugees and asylum seekers (2006)*
- *Inside and out: People in prison and life after release (2005)*
- *Grey matters: Growing older in deprived areas (2004)*
- *Side by side: Young people in divided communities (2004)*
- *Local action changing lives: Community organisations tackling poverty and social exclusion (2004)*
- *Charity begins at home: Domestic violence (2003)*

Education

- *Inspiring Scotland: 14:19 Fund (2008)*
- *After the bell: Out of school hours activities for children and young people (2007)*

- *Lean on me: Mentoring for young people at risk (2007)*
- *Misspent youth: The costs of truancy and exclusion (2007)*
- *Read on: Literacy skills of young people (2007)*
- *On your marks: Young people in education (2006)*
- *What next?: Careers education and guidance for young people (2005)*
- *School's out?: Truancy and exclusion (2005)*
- *Making sense of SEN: Special educational needs (2004)*

Health and disability

- *Heads up: Mental health of children and young people (2008)*
- *A life less ordinary: People with autism (2007)*
- *What price an ordinary life?: Financial costs and benefits of supporting disabled children and their families (2007)*
- *Don't mind me: Adults with mental health problems (2006)*
- *Valuing short lives: Children with terminal conditions (2005)*
- *Ordinary lives: Disabled children and their families (2005)*
- *Out of the shadows: HIV/AIDS in Burundi, Democratic Republic of Congo and Rwanda (2005)*
- *The hidden assassin: Cancer in the UK (2004)*
- *Caring about dying: Palliative care and support for the terminally ill (2004)*
- *Rhetoric to action: HIV/AIDS in South Africa (2003)*

Environment

- *Green philanthropy: Funding charity solutions to environment problems (2007)*

International

- *Philanthropists without borders: Supporting charities in developing countries (2008)*
- *Going global: A review of international development funding by UK trusts and foundations (2007)*

Cross-cutting research

- *Critical masses: Social campaigning, a guide for donors and funders (2008)*
- *Striking a chord: Using music to change lives (2006)*

Improving the voluntary sector

- *Board matters: a review of charity trusteeship in the UK (2009)*
- *How are you getting on?: Charities and funders on communicating results (2009)*
- *Granting success: Lessons for funders and charities (2009)*
- *Valuing potential: An SROI analysis on Columba 1400 (2008)*
- *More advice needed: The role of wealth advisors in offering philanthropy services to high-net-worth clients (2008)*

- *Turning the tables: Putting English charities in control of reporting (2008)*
- *Turning the tables: Putting Scottish charities in control of reporting (2008)*
- *On the bright side: Developing a questionnaire for charities to measure children's well-being (2008)*
- *Advice needed: The opportunities and challenges in philanthropy for ultra high net worth individuals and family offices (2007)*
- *Trading for the future: A five-year review of the work of the Execution Charitable Trust and New Philanthropy Capital (2007)*
- *Funding success: NPC's approach to analysing charities (2005)*
- *Surer Funding: Improving government funding of the voluntary sector (2004, published by acevo)*
- *Full cost recovery: A guide and toolkit on cost allocation (2004, published by NPC and acevo)*
- *Just the ticket: Understanding charity fundraising events (2003)*
- *Funding our future II: A manual to understand and allocate costs (2002, published by acevo)*

Appendix 3: A Question of Charity: Lecture by Martin Brookes, NPC Director of Research, at the RSA (Royal Society for the encouragement of Arts, Manufactures & Commerce), 19 November 2007

The performance of charities is not independently assessed or scrutinised.

You may remember that ITV got into trouble recently for rigging the results of TV phone-ins. Viewers were calling to vote in competitions, but it turned out the results were being fixed. The really interesting thing for me was the way Ant and Dec, two of ITV's star presenters, reacted.

Ant and Dec were the presenters and producers of one of the programmes involved. They responded by pledging all the profits from their next series of Saturday Night Takeaway to charity.[1]

This episode tells us a great deal about how we view charities—and about the problems I want to address tonight.

Pledging profits to 'charity' was seen as a suitable response and it took pressure off Ant and Dec. Nobody asked which charities they would give the money to, how they would be chosen, or what the money was going to achieve. It was enough just to say the money would go to charity. And they weren't the only ones. The chairman of ITV, Sir Michael Grade, made a similar promise on *Newsnight* about the proceeds from the phone-ins.

What these statements reflect is a broader tendency not to subject all charities to scrutiny, to regard them as intrinsically good, and not needing further investigation. It is that tendency and its consequences that are the theme of my lecture tonight.

Measuring things

Two years ago, the head of the civil service, Cabinet Secretary Sir Gus O'Donnell set in train a series of studies of the capabilities of government departments. According to Sir Gus, "these reviews will give civil service leaders a real grip on how well the service is performing and not by its own measure but by independent, credible, objective assessment."[2]

This was an important step in trying to improve the working of the civil service. It was significant for another reason too. It meant that charities were left as—if not the only— certainly one of the very few types of organisation whose performance is not scrutinised these days.

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[1] Ant and Dec profits go to charity, BBC News, http://news.bbc.co.uk/1/hi/entertainment/7054373.stm [accessed 26 October 2007]

[2] O Donnell, G. (2005) Departmental Capability Reviews – Note to the Public Administration Committee. Civil Service.

The capability reviews are complicated. It is not easy to measure success in Whitehall departments. They are buffeted by events and they are complex organisations with lines of accountability which the ippr says are "like a bowl of spaghetti".[3] They also have a strong tradition of public service.

Much the same could be said of charities. But perhaps one key difference between charities and government departments is that no-one seems to think it is important to assess charities.

In this lecture, I will argue that this lack of scrutiny is bad. It results in worse performance. And I am going to argue that greater scrutiny of charities is inevitable—and that a new institution should be established to assess and improve their performance.

Who gets measured?

If you do a roll call of bodies that now come under greater scrutiny, it shows just how isolated is the position of charities.

Schools' performance is assessed by Ofsted and tracked (albeit imperfectly) by league tables.

Hospitals are assessed by the Healthcare Commission, soon to be replaced by the Care Quality Commission.

Police Authorities assess the police, as does the Inspectorate of Constabulary.

Local authorities are assessed by the Audit Commission.

The National Audit Office as well as the House of Commons Public Accounts Committee look at public spending.

Outside the public sector, privately owned utility companies are assessed and regulated by Ofgem, Ofwat and other bodies. And publicly listed companies are scrutinised and assessed by an army of analysts in the pay of investors and banks as well as by specialist journalists.

All of these bodies and programmes involve independent scrutiny, analysis and, often, judgement. This last varies in tone, but judgement is invariably present to some degree.

The position of charities is very different. The Charity Commission, as official regulator, asks only if a charity is "for the public benefit" in the language of the new Charity Act. In other words, is it legitimately a charity?

"Public benefit" is a state. It is either present or it is absent. A binary judgement. You provide it or you don't. The Charity Commission does not assess how much public benefit a charity provides. You only know what charities say about themselves.

But performance can vary and the Charity Commission does recognise this. It sees its role also as helping charities to maximise their impact and to boost effectiveness. But helping charities be effective is not the same as assessing how effective they are. As the Commission says of its Review Visits to charities;

"[A] Review Visit is neither an audit nor an inspection."[4]

The Commission seeks not to judge, but to help, and then on only limited aspects of organisations' work. Scrutiny, analysis and assessment aren't on the agenda.

Some foundations and other grant-makers do assess charities before distributing funds, but these are few and often apply arbitrary criteria. Government funders, too, require information from charities, but this is usually tied to specific projects they are funding. And both groups invariably keep their deliberations private.

So we are in the curious position where charities are assessed only as to their legitimacy as charities; it is recognised that performance might vary and therefore some are better than others; but we don't bother to inquire further. Crucially, there is no body charged with producing independent, credible, objective assessments of charities.

Why charities are not scrutinised

[3] Lodge, G & Rogers, B. (2006) Whitehall's Black Box: Accountability and performance in the *senior civil service*. Institute for Public Policy Research.

[4] Charity Commission website, http://www.charity-commission.gov.uk/enhancingcharities/reviewprog.asp [accessed 8 October 2007].

Now, there are a number of possible reasons why charities escape the same scrutiny and accountability that applies to most other organisations in society.

First, we don't care. Giving to charities is about disinvestment rather than investment. It is about assuaging guilt, easing one's conscience, making a gesture, currying favour. The impact of donations is secondary. Why bother spending time and effort assessing how the money is used. It is enough that Ant and Dec pledge their profits to charity. That's one theory.

Second, and related to this, we don't discriminate between charities. Instead we think only of 'charity'—a homogenous group—even though most of us can name a few individual ones. There are lots of examples of us talking about 'charity' in such a way. For example, British Airways recently sold off customers' unclaimed luggage, donating the (majority of the) proceeds to 'charity'.[5] Share schemes run by employers ask staff if they want residual amounts given to 'charity'. Think Ant and Dec and Sir Michael Grade.

And charities themselves often take this approach. Conversations with charities and their representatives usually include many references to 'the sector'.

A third possibility is that charities are different. Their nature—their very purpose and origins in helping people—sets them apart from other institutions. The Charity Commission Chair, Dame Suzi Leather, reflected one aspect of this when she said recently.

"At an individual level and collectively I think charities complete us. There is something about—at least there was for me—the kind of befriending aspect of being a volunteer in the Probation Service, which meant so much to somebody on the receiving end. Why are you here? Because I want to be. I'm not here because I'm paid to be or because I'm expected to be. I'm simply here as a gift. And that is a completely different quality of relationship."[6]

Perhaps so different that it puts the activity itself beyond scrutiny or question. Once you've established the activity is for the public benefit, you pay your compliments and you move on.

The use of volunteers sets charities aside from many other organisations. Charities give people the chance to help and a sense of worth and purpose. This sense of purpose is frequently presented as a distinguishing characteristic of working in a charity. The people are nicer—that's what some in the voluntary sector might say.

I have to say, though, that I've worked in all three sectors—public, private and charitable—and, while it's dangerous to extrapolate from small samples, I certainly don't think people are nicer in the voluntary sector!

But there clearly are differences in behaviour. And if I choose to work or volunteer in a charity, perhaps I would take umbrage if someone asked me to demonstrate my effectiveness.

A final possibility is that we would like to see analysis of charities but think it is too hard. Charities cannot be reduced to a simple profit and loss account like a company. They deal with people. And, besides, many charities campaign to change attitudes or policies. Analysing them is beyond any available methodology.

It's certainly very hard to find much coverage of charity performance in the press. I can't think of any significant coverage in the main sector publications. Imagine the Companies and Markets section of the *Financial Times* without discussion of company profits. This is not though, one must stress, the fault of the journalists. The fault is the lack of performance data.

Each of these explanations might be partly true.

Fortunately, my purpose is not to determine exactly why charities escape scrutiny. It's enough to show that there are plausible arguments as to why.

Why scrutiny matters

But despite the fact we seem to treat charities as somehow different, we still care that money we donate to charity is spent wisely. A large majority of people want to know how the money is spent, and what it achieves.[7]

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[5] Untagged bags piled up at airport, BBC News, http://news.bbc.co.uk/1/hi/uk/6294289.stm [accessed 24 September 2007].

[6] Miles, A. & Rumbelow, H., The Dame who'll give private school a lesson in what charity really means. The Times 18 August 2007.

[7] Charity Commission (2004) Transparency and accountability.

So, we seem to want charities to be accountable. But we don't want to make the discriminating judgements which might follow from this. And we certainly haven't established a system in which assessment and scrutiny is the norm.

I believe that this lack of scrutiny is not healthy.

And it's not fair to the taxpayer or the donor either.

Charities received a total of £1.3 billion of subsidy through tax-efficient giving in the last financial year.[8] This money could go into schools and hospitals. No-one sits in judgement over the value for money provided by this.

And private donors—that's you and me—give almost £9 billion whose impact is not adequately recorded or monitored.

If there were infinite amounts of money, this wouldn't matter. But money is limited so we need to think about performance.

By performance I mean some measure of social return or value. To use the jargon, I care about outcomes and about impact. A social need must be matched with a means of effectively addressing it.

In short, results matter.

In a world where there are huge problems and the potential to do good, I don't want to see charitable donations being wasted—or achieving less than they could. And I want those donating to do so with knowledge.

We need to proceed carefully through the argument about scrutiny. It has three stages.

- First, performance varies. Not all charities are the same.
- Second, independent scrutiny improves performance.
- Third, a different perspective improves performance even more.

I noted earlier the Charity Commission's implicit belief that the performance of charities varies. This was also recognised recently by the Audit Commission.[9]

One of the problems we face, though, is that there's little hard data to support this belief. At present there are few available means of assessing charities and none which focus on a measure of value or worth.

It's possible to come up with financial ratios for charities—but most of these are useless and they can be downright misleading.

So the lack of performance metrics makes it hard to be absolutely sure that performance varies. But we can make pretty powerful inferences by looking elsewhere.

The performance of companies varies enormously. For example, the gap between the returns on the top and bottom quartile car manufacturers in the world was 25% over the past five years.[10]

Such publicly quoted companies face enormous scrutiny and pressure to chase high returns. They are being probed and examined by many people—journalists, trade magazines, equity analysts, as well as fund managers, and the wider public. And yet, we still see big variations in performance.

If the performance of companies facing such scrutiny varies so much, what's it likely to be in charities which don't face this kind of scrutiny and which publish very little performance data?

A similar picture emerges wherever you look—schools, hospitals, surgeons or police forces. To pick just one recent example, police in the 'worst' force overall last year, Bedfordshire, were half as likely to make an arrest in a

[8] Charities Aid Foundation (2007) Charity Trends 2007.

[9] Audit Commission (2007) Hearts and minds—Commissioning from the voluntary sector.

[10] Mohammed Fawaz, Fulcrum Asset, private communication.

domestic violence incident as police in North Yorkshire.[11] Maybe there are explanations for this which have nothing to do with performance. But perhaps it has a great deal to do with performance.

A fascinating tale on variations in performance comes from Atul Gawande, a writer for the *New Yorker* magazine and a surgeon in Boston, Massachusetts.[12] Gawande writes about the treatment of US patients with cystic fibrosis. Life expectancy varies according to where you are treated. Patients at an average treatment centre had a life expectancy in 1997 of just over 30. But this rose to 47 at the best centre.

Unless there is something very different indeed about charities, it seems reasonable to believe that some are 'better' than others. It is, to me, a statement of the obvious that performance varies between charities. But it has rarely been said. And its implications are even more rarely considered.

Accepting that performance does vary, we can draw two conclusions. Donors can, at least in theory, find 'better' homes for their money. And, charities themselves might benefit from comparing performance—some should be able to improve and others have valuable experiences and practices to share.

The second step in my argument is that independent scrutiny and assessment usually have positive benefits.

It's important to disentangle and consider the mechanisms that might be at work here. There are two schools of thought. The first is that public information can get in the way of professionals and it seems to assume that any variation in performance is acceptable. The second believes scrutiny creates incentives for improvement.

The first school is exemplified by Onora O'Neill, the philosopher and 2002 Reith lecturer.[13] An implicit assumption in O'Neill's Reith lectures is that public services are well-provided by competent professionals. She reasons that;

"[T]rust seemingly has receded as transparency has advanced. ... It is quite clear that the very technologies that spread information so easily and efficiently are every bit as good at spreading misinformation and disinformation. Some sorts of openness and transparency may be bad for trust."

It is the information which is at fault, not the professionals. There is nothing wrong with the Bedfordshire police performance on domestic violence. It is those infernal statisticians who insist on adding up and publishing the numbers.

The second school of thought comes from economics. Scrutiny is closely linked to transparency. And economists like transparency in part because they think people are inherently lazy. Transparency makes it more difficult to be lazy.

Tomas Bat'a, the early 20th century founder of the Czech shoe company that bears his name provides an exemplar of this view. Bat'a liked to keep an eye on his employees. So he put his office in the lift at the company's headquarters. That way he was able to go up and down monitoring activities on all the different floors. [14] I can imagine some economists nodding approvingly at this strategy.

Either trust professionals, or assume people don't like work. These two schools reflect profoundly different philosophies.

While it is easy to wince at the cynical economist's perspective, it is also easy to shy away from the optimism of Onora O'Neill.

It's possible, though, to chart a middle course which starts from the premise that information empowers. It empowers you, consumers and donors, to make better, more informed choices, and by having information you can put pressure on producers. And information empowers producers to learn about their peers and competitors, giving them scope to improve.

Scrutiny and information can therefore help in three ways. Private information shared among professionals can help organisations learn from each other.

If made public, the information and assessments might increase incentives for organisations to improve. And it might also allow consumers to pick higher performers.

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[11] Home Office Police Performance website, http://police.homeoffice.gov.uk/performance-and-measurement/performance-assessment/assessments-2006-2007/ [accessed on 12 October 2007].

[12] Gawande, A. (2007) Better—A surgeon's notes on performance. Profile Books.

[13] O'Neill, O. (2002) A Question of Trust—The BBC Reith Lectures 2002. Cambridge University Press.

[14] Nadel, I. (2002) Double act—A life of Tom Stoppard. Methuen.

If the evidence supports these kinds of effects in other vocational fields, it is hard to see why the same reasoning wouldn't apply to charities.

And evidence suggests that performance measurement and publication does raise standards in areas such as healthcare.

I described earlier variations in life expectancy for people with cystic fibrosis. Data on this has been produced in the US since 1964 on an anonymised basis, but with hospitals able to see their own position.

A few years ago, Cincinnati Children's Hospital was in the bottom 25%—one of the worst performers. So what did it do? The hospital was open about it—it told parents about its performance and its plans to improve. Strikingly, all parents decided to stick with the hospital rather than go elsewhere.

The key point is that without information on its performance, Cincinnati would not have known it was a poor performer. The professional desire of staff to improve drove greater transparency and honesty with patients.

Professional pride alone can be enough to raise standards provided information about performance is produced and privately available. But public scrutiny can improve things further.

One widely quoted example in healthcare comes from a small industry of researchers who have analysed the impact of coronary surgery report cards which have been published for the state of New York since 1991, and, more recently, for Philadelphia and New Jersey.

The clear result from this literature is that greater public information resulted in lower mortality rates.[15] Similar results emerge from research looking at the impact of the mere possibility of published data for individual surgeons in the UK following the Kennedy inquiry into events at the Bristol Royal Infirmary.[16] The possibility of publication appears to have led to reduced mortality rates of heart patients.

An experiment from Wisconsin also suggests that the publication of information results in improvements.[17]

Hospitals were given reports on their performance, and the reports and names of hospitals were published for one group. Attitudes and behaviours of senior managers were then monitored.

Those hospitals whose reports were not made public were relatively comfortable. Those hospitals whose reports were made public were unhappy. But this second group took more steps to address the areas where they performed badly.

A public assessment of performance made health professionals unhappy but was more likely to change behaviour.

The balance of evidence suggests that public reporting seems to work by changing the behaviour of providers of care, not by changing the behaviour of consumers.[18] But change does happen.

The field of education and school league tables is a little murkier.

The Ofsted regime of school inspections does appear to have improved standards, though some question aspects of its work.[19] Furthermore, Alex Frean, education editor of *The Times* says,

"Teachers hate Ofsted."[20]

School league tables also are still contentious.

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[15] Epstein, A. (2006) Do Cardiac Surgery Report Cards Reduce Mortality? Assessing the Evidence. Medical Care Research and Review, 63(4): p 403-426.

[16] Bridgewater, B. et al. (2007) Has the publication of cardiac surgery data been associated with changes in practice in northwest England? Heart, 93, p 744-748.

[17] Hibbard, J., Stockard, J. & Tusler, M. (2003) Does publicizing hospital performance stimulate quality improvement efforts? Health Affairs, 22(2), p84-94.

[18] Marshall, M., Shekelle, P., Leatherman, S., Brook, R. (2000) The Public Release of Performance Data—What Do We Expect to Gain? A Review of the Evidence. Journal of the American Medical Association, 283(14) p: 1866-1874.

[19] Matthews, P. & Sammons, P. (2004) Improvement through inspection—An evaluation of the impact of Ofsted's work. Office for Standards in Education.

[20] Private communication.

League tables and targets can distort behaviour through so-called 'gaming', for which there is ample evidence.[21]

League tables certainly change behaviour in education and sharpen incentives. One might dispute whether they have improved performance overall.

Evidence from the commercial sector shows regulation improves efficiency and quality of service.[22] These benefits are acknowledged to be even greater when regulators are able to compare the performance of similar businesses in the same sector, such as the regional water companies.

A spirited defence of league tables comes from Michael Barber, former head of the Prime Minister's Delivery Unit. In his memoir, Barber writes,

"Not everyone in the public services likes league tables, but I love them."[23]

Leaving aside the specific merits or otherwise of league tables, I think it is fair to say that overall the evidence shows that behaviour changes and performance improves in response to scrutiny and assessment.

The impact of scrutiny on charities

So how would it work when it comes to charities? What are the mechanisms whereby performance would improve?

The simplest route is that informed donors would be more likely to pick better charities. The average £1 donated to charities would then have more impact. Relatively weak charities would lose funding, and that would be right.

The other routes involve changing charities' behaviour, either by highlighting alternative ways of working or threatening to punish poor performance. I believe the evidence supports in particular both these routes.

So far, I have argued that:

i. performance varies, and

ii. public scrutiny is good for performance.

The third and final element of the argument that scrutiny is good for you is about diversity of perspectives.

A wonderful illustration of this comes from baseball in Michael Lewis' book, *Moneyball*.[24] Lewis shows how the introduction of statistical analysis of baseball players' performance highlighted failings in the way players were assessed.

The pioneer in this was Billy Beane, the coach of the Oakland A's in California. And his innovative approach led to out-performance by a team with only modest resources. To begin with it also attracted scorn from hardened professional scouts.

The conventional way of picking baseball players was simply wrong. The received wisdom was that a player's hitting ability mattered. Crunching the numbers revealed that a player's ability to get on base is the real key.

Economists—that dismal lot again—never let a good story get in the way of the facts. Two academics subjected this theory to rigorous analysis, and confirmed it.[25]

As these economists noted;

"To execute the strategy, Oakland reached outside baseball circles and hired two young Ivy League graduates with quantitative backgrounds to evaluate personnel."

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[21] Wilson, D., Croxson, B & Atkinson, A. (2004) "What gets measured gets done": Headteachers' responses to the English secondary school performance management system, Bristol University Centre for Market and Public Organisation Working Paper No 04/107.

[22] Comptroller and Auditor General (2002) Pipes and wires. National Audit Office.

[23] Barber, M. (2007) Instruction to deliver—Tony Blair, Public Services and the Challenge of Achieving Targets. Politico's.

[24] Lewis, M. (2003) Moneyball. W W Norton.

[25] Hakes, J. & Sauer, R. (2006) An Economic Evaluation of the Moneyball Hypothesis. Journal of Economic Perspectives, 20(3), p 173-185.

So, a lesson from *Moneyball*—and a key point to me—is the importance of having diverse perspectives and skill-sets to assess and improve organisations. That is not some politically correct point about diversity; it is about the way people's minds work. As a general principle it has been confirmed by a variety of research.[26]

Conclusions on scrutiny

Picking a path through the mass of evidence on measurement, accountability and performance is difficult. But, I think certain statements are possible.

- First, scrutiny, assessment and measurement of performance changes behaviour. It leads to improved results.
- Second, the design of good systems is fraught.
- Third, making assessments public raises performance.
- Fourth, a lot of people still don't like it. Performance measurement and independent assessment arouse strong feelings.

Why greater scrutiny of charities is inevitable

All this leads me to think that greater public scrutiny of charities and assessment of their performance would be a good thing. I also think it is becoming inevitable. Here are the reasons why.

Performance assessment is now so pervasive in the rest of society that it is hard to see how charities can escape. The fact that charities benefit from over a billion pounds of subsidy from taxpayers' money makes the anomaly harder to sustain.

Second, technology is deluging us with more information but it is also providing ever more sophisticated ways of ordering it. We can catalogue, tag, label, collate, pool and compare data in ways that just weren't practical in the past. This trend is not going to stop. We're going to have more and better information about our hospitals, government departments, our politicians, and so on. It is hard to see it bypassing charities.

Third, there are more ways of measuring value. Some of these are economic—measures derived from cost-benefit analysis, for example; others seek to capture true worth—for instance, measures focused on wellbeing. And some look at whole organisations, such as the civil service capability reviews.

As these techniques multiply, it seems reasonable to ask charities how well they measure up. Perhaps because they have never properly been asked to give an account of their results, many charities currently talk in abstract terms about measurement and value but ultimately fall back on assertion about their worth. In this they are uncomfortably like Tom Stoppard's academic philosopher George in his comic play *Jumpers*, who asserts,

"There are many things I know which are not verifiable but nobody can tell me I don't know them."[27]

I am tempted to add a fourth reason, namely that donors are more demanding. And in certain respects I believe that to be true. There is some evidence that donors have not historically been concerned, but there is growing anecdotal evidence of a new breed of donors who care.[28]

In fairness, more charities are embracing this challenge and a number of initiatives are starting to foster greater transparency. The Charity Commission's Summary Information Return, the development of Guidestar UK, the ImPACT coalition of fundraising charities, and so on.[29] But progress is slow and only limited resources are committed.

Also, very little of this effort is really grappling with questions about results and about effectiveness. And, there is virtually no independent oversight and examination of charities' performance, other than by the organisation I work for, New Philanthropy Capital.

But is it ultimately desirable? It would be foolish to believe that it carries no risks. I can think immediately of four.

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[26] Page, S. (2007) The Difference—How the power of diversity creates better groups, firms, schools, and societies. Princeton University Press.

[27] Stoppard, T. (1972) Jumpers. Faber and Faber.

[28] Cunningham, K. & Ricks, M. (2004) Why measure? Nonprofits use metrics to show that they are efficient. But what if donors don't care? Stanford Social Innovation Review, Summer, p 44-51.

Scorpio Partnership (2007) Philanthropy among ultra high net worth individuals and family offices in Europe.

[29] National Council for Voluntary Organisations (2004) Accountability and Transparency.

- First, criticism of individual charities could put them out of business by undermining their funding. That creates a big responsibility to proceed carefully and get it right.
- Second, if society does not discriminate greatly between charities, criticism of one might threaten donations to many more. Public scrutiny might threaten the funding of charities by undermining the notion that all are valuable.
- Third, it might genuinely be too difficult to do. Producing frameworks and measures of performance might be so hard that one falls back on simplistic measures. Creating good systems and methods represents a considerable challenge.
- The fourth risk is that we might destroy the very concept of charity by subjecting it to scrutiny. There is certainly evidence from other fields that changing the terms of transactions—whether by introducing money or assessment—can alter behaviour.[30] And there is a perfectly respectable school of thought that charitable activity in itself is valuable.

I want to probe this last risk a little more. There is reluctance in the voluntary sector to accept scrutiny from outsiders. I see this through our work at New Philanthropy Capital. For example, I often describe our team of analysts to people within the sector—and point out that it is a group of brilliant young individuals from a range of backgrounds including charities, management consulting, journalism, economics, and investment research as well as straight out of university. Frequently, the only nod or gesture of acceptance comes when I mention that some of our team have worked in charities. Credibility seems to be given only to those who come from the sector. That is absurd.

Assessment by themselves of themselves seems the only acceptable way to many charities. If you are not one of us, how can you understand and assess us.

This attitude stems, I think, from being perpetually beleaguered. The system of funding and supporting charities is so dysfunctional that it creates a siege mentality. Good chief executives spend huge amounts of time raising money. Fundraisers are, for every success, rebuffed on numerous occasions. Barriers to growth prevent the scaling up of good projects, and random and irrational decisions by funders stop good work in its tracks.

Coupled with a conviction that they are doing good, this backdrop makes charities sceptical about the value of outsiders' perspectives. Credibility comes only from sharing the grind over sustained periods, not from being clever and wanting to ask questions. While this is changing, the pace of change is very slow.

Such an attitude has tremendous downside. Charities exist only to do good. Charities need to embrace scrutiny. If we look deeply at the evidence on scrutiny, we will find it persuasive. A shift towards genuine openness is the next step. If the sector grasps this nettle, it could preserve the concept and practice of charity but improve the effectiveness of charities.

Trustees—who often lack good information on which to assess their charities, and very rarely have good independent, or comparative data—are a natural agent of change here. They should help drive this agenda forward.

So, there are risks. There are always risks in any course of action.

Conclusions—New body needed

Economics was most famously defined as the allocation of scarce resources between greater needs. That description applies even more powerfully to addressing the real need for charity—tackling subjects like violence, abuse, depression and mental health, as well as supporting the arts and other worthwhile causes.

If one accepts that (i) performance varies and (ii) it can be described, assessed and measured, then the moral imperative to seek out the highest social return, is powerful. Independent scrutiny and assessment are a vital part of that quest. The onus should be on those who want to protect charities from this to justify that position.

To date, government has done relatively little in this field, despite recognising the need for better information. Charities have not done enough to explain themselves properly to the public. And donors have not been enquiring and demanding enough.

New Philanthropy Capital is playing its role, such as developing frameworks to assess charities, and pioneering ways of measuring the impact of well-being; and, doing so, will bring in skill-sets rare in the sector. Even so, far greater resources overall are needed.

[30] Le Grand, J. (2003) Motivation, Agency, and Public Policy. Oxford University Press.

I believe a new institution is needed to sit alongside the Charity Commission. In contrast to the Commission's fundamental role of regulating the existence of charities, this new body should be concerned with assessing and improving the performance of charities. The Commission is not the right place for this to sit. Its regulatory role gives off too strong a whiff of lawyers and legalese. Looking at the performance of charities requires sprinklings of economists, management consultants, statisticians and auditors. They would sit more comfortably in a new body.

The body should be independent and should regard its stakeholders as donors and funders, charities and their beneficiaries. It should both assess and help to improve performance. In the early years this will require a considerable investment in R&D to develop the right metrics and frameworks.

The body should be officially sanctioned by government, and ideally be constituted as a non-departmental public body under the auspices of the Cabinet Office. It should report to a newly created House of Commons Third Sector Select Committee or, failing this, perhaps to the Public Accounts Committee. Staff should be drawn from a variety of backgrounds, not just the voluntary sector.

The body should be lean and should set out not to create bureaucracy but through its work to reduce the burdens which already bedevil charities. All government efforts to date in this regard have failed.

I think the body should work through influence rather than coercion. Charities' management and their trustees will want to listen to ways in which they can improve. The desire to be good at doing good is a potent mechanism.

The body would need to draw on experience and expertise in the sector, but it should avoid the fate of recent initiatives run from within the sector. These have tended to move at the speed of the slowest and have been damned by poor design. Independence, the ability to ask awkward questions and develop novel solutions must be key elements of this body.

It is important to stress that this proposal is not driven by a suspicion that charities are bad. It is driven by a desire to help them do more good. Charities are an important driver of social change. I want them to achieve more and to help good charities get more money to grow. And I want donors to have comfort that their money is used to good effect, hopefully encouraging more donations.

Charities in the UK have annual income of around £29 billion. Of this, almost £9 billion comes from you in individual donations. Even a small improvement in average performance would produce substantial returns.

Creating such a body would have far-reaching—and positive—consequences for the way charities are run and our confidence in their achievements.

To pick once more on Dame Suzi Leather's quote, I do not think that charities complete us. I take a more pessimistic view. I think that the social problems many charities address are an affront to us. They diminish us. Our charitable acts to address these problems only partly fill the gap. To plug the gap fully, we must squeeze as much return out of charity as possible. That is a moral imperative for all. Scrutiny, analysis and assessment of charities to this end aren't desirable, they are essential.

Martin Brookes

19 November 2007