

## **Family Action's submission to the Select Committee on Charities Inquiry on Charity Sector Sustainability**

### **Summary**

1. Family Action is a charity committed to building stronger families by delivering innovative and effective services and practical, emotional and financial support to many of the UK's most vulnerable people. Our work includes help for parents-to-be, parenting and relationship support, nurseries and Children's Centres, home-based family support, emotional health and wellbeing services, mental health services, financial grants programmes and training and consultancy services. Our Chief Executive, David Holmes CBE, would be pleased to offer oral evidence to the Select Committee on Charities' Inquiry on Charity Sector Sustainability.
2. Charities deliver support across all areas of life. We are fundamentally values, not profit, driven and it is our values base, coupled with our independence from the State, which makes us ideally placed to engage service users and to earn their trust. Charities engage individuals, families and communities in delivering change and enhance community capacity in the process. We give people a voice and make it heard locally and nationally by those in power. Voluntary work is increasingly a pathway into employment or training and there has been increased formalisation of the role and support given. Volunteers allow charities to deliver more and be innovative in service design and delivery.
3. The charity sector's independence, community networks and fleetness of foot means it is an effective test-bed for innovation and service development. Money is an issue but we are highly skilled at testing new ideas on a shoestring, and able to gather relevant expertise and mobilise new services very quickly. We increasingly use digital technology to provide low level or follow-on support, and digital communication tools allow us to reach wider audiences. Social investment has the potential to enable charities to trial new ways of working that do not yet have a strong evidence base, and Family Action is using social investment to trial a new wraparound service for troubled adolescents in care.
4. Despite calls for more early intervention services, reduced Local Authority budgets mean usually more emphasis is placed on delivering statutory services and increasingly charities are contracted to deliver services previously within the realm of statutory responsibilities. We have adapted to that but it remains difficult for Local Authorities in the current financial context to shift significant amounts of spend to early intervention and prevention. This is reality, but it is vital we do not lose our capacity to innovate and find better ways of spending the same amount of money. Charities can help enormously in that challenge but bureaucracy around commissioning and procurement can stifle innovation and stop positive change.
5. The charity sector must re-establish a clear and positive identity and get better at showing the difference it makes to people's lives. It is sad that due to some indefensible examples of poor fundraising and financial practice public support of charities has been reduced. Most charities in our experience are well run and quietly delivering fantastic work. We are, and should be, highly accountable bodies, with robust governance and extensive scrutiny by funders. We need to ensure that as well as regulating what charities do and how they are managed we also give equivalent attention to supporting, incentivising and celebrating what they are brilliant at, such as innovation and community development.
6. Charities, more than ever, must operate as efficient social businesses to be sustainable. The reduction and uncertainty of income from local and national Government, short length of contracts and increasing number of service foreclosures are all current challenges. Charities must diversify their income base to survive, and keep an eagle eye on both income and their ability to evidence the impact of money spent. Charities need business-like, values-driven, financially literate, innovative, passionate, impact-focused leaders and Trustee Boards.

### ***The purpose of charities***

*What is the role and purpose of charities in civic society in England and Wales?*

7. Charities deliver support across all areas of life. Charities at their best engage individuals, families and communities in delivering change and significantly enhance community capacity in the process. Charities can give people a voice and make that voice heard locally and nationally by those in power. The charity sector's independence, community networks and fleetness of foot means it is an effective test-bed for innovation and service development.

*How has this changed?*

8. Charities are increasingly contracted to undertake quasi-statutory work that Local Authorities would traditionally have delivered - blurring the boundary between the charity sector and the public sector. The boundary between the charity sector and the private sector is also increasingly blurred in terms of how charities must operate in order to stay afloat. Charities, more than ever, must now operate as efficient businesses in order to be sustainable. But what sets charities apart, what must set us apart, is our strong values- base and the fact that we are fundamentally driven by mission not by profit. Due to some highly publicised examples of poor fundraising and financial practice, public support of charities, and their ability to deliver services with true impact, is currently reduced - altering the traditional relationship charities have enjoyed with the public. This is sad because most charities make such a positive contribution to society.

*What makes them distinct from other organisations doing similar work?*

9. We are fundamentally values, not profit, driven and it is our values base, coupled with our independence from the State, which makes us ideally placed to engage with service users and to earn their trust. We are also highly accountable bodies – with robust governance and extensive monitoring and scrutiny by funders. By the very nature of our funding, whether contract or voluntary income, our practice and finances are constantly 'open book.' We think that is only right.

*What role can charities play in community cohesion and civic action?*

10. Charities help engage communities in delivering change – encouraging co-production and volunteering and enabling people to feel they can make a difference for themselves, their families and their communities. For instance, the Family Action Perinatal Support Services enable local mums to befriend families at risk of, or experiencing mild to moderate mental health issues during pregnancy and/or after a child is born. This not only improves service user engagement and their individual outcomes, but also builds community capacity through the volunteers.
11. Family Action also works with the local community on an organisational basis. We work hard to partner with smaller local organisations – helping to sustain good, local charities and modelling the advantages of cohesive, partnership working. Even where we do not partner with local services we ensure that we signpost service users to other available support. For example, Family Action's Social Prescribing Service uses a coordinator to work with the service user to identify and address issues affecting their health and well-being, before referring them to a variety of community, voluntary sector and public sector services that can provide appropriate support.

*How does the sector benefit from volunteering?*

12. Volunteers allow us to deliver more and to think innovatively in service design and delivery. They give charities a larger pool of people with relevant experience and expertise to work with service users, sometimes offering roles that would not be possible for paid staff to deliver. For instance, our Friendship Works Service links adult volunteer mentors with children and young people who need positive adult support/role models in their lives – with

mentors committed to meeting with their linked child three times a month for at least two years. Encouraging volunteering in the charity sector enables individuals to test whether they want to move into the sector in an employed capacity, giving them the experience of using and transferring their considerable skills as a volunteer for a period of time. This can enable the sector to benefit from a skilled and experienced new workforce. The beauty of volunteering is that it can adapt to meet volunteers' available time and other commitments.

13. Volunteers can also give new perspectives on charitable activities to help charities be the best that they can. They bring expertise that some organisations would otherwise find hard to afford, such as marketing or systems knowledge. Trustees are volunteers and a carefully built Board will bring huge amounts of expertise and wisdom for a charity to draw on.

*How has the status of volunteers changed?*

14. The financial contribution made by volunteers to individual organisations and the sector as a whole has increased - austerity has meant that volunteers are increasingly required by charities to help us provide our services. Not many years ago volunteering tended to be undertaken by those who could afford not to work, whereas now it is often used by those seeking work to gain the experience necessary to secure a job. College and university courses increasingly require either previous voluntary experience, or unpaid placement work to be undertaken within organisations during the student's studies. These changes to the socio-economic background and motivations of volunteers have coincided with increased formalisation of the role and the support given to volunteers. For example, at Family Action all our volunteers receive exactly the same basic training as our staff. However, the use of volunteers is still viewed negatively by some funders.

*What challenges do charities face in trying to fulfil their role in civic society?*

15. The charity sector faces the challenges of re-establishing a clear identity and managing public and political expectations. Charities tend to be viewed as a homogeneous group, when it is actually massively disparate in terms of size, income, delivery methods and focus. It is difficult for the huge majority of charities who are quietly doing excellent work to maintain the trust of the public, service users and commissioners alike when a much smaller number of charities receive negative media attention over their questionable practice. The almost inevitable change in regulations and reduction in voluntary donations then risks making it more difficult for charities to maintain their distance and independence from the state - if the result is a greater proportion of a charity's funding then needing to come from the public sector or Central Government.
16. The increasing expectation that charities will deliver quasi-statutory work also affects the sector's identity and level of risk exposure. Charities are supporting service users with higher levels of need than previously, with less money to deliver these services. If the sector is not able to challenge this, because the need for the income is so great, it runs the risk unsafe practice will emerge, causing further damage to the sector's reputation.

*How can these challenges be overcome?*

17. These challenges can be overcome through robust regulation of charity practice alongside Central Government encouraging, enabling and championing innovative service delivery by charities. At the same time we all need to take time to acknowledge and celebrate the massive contribution made to our nation's health and wellbeing by charities – just imagine what would be lost if charities did not exist, not just in terms of service provision but also in terms of our humanity. Charities can help overcome the challenges by focusing on income diversification and harnessing new technology to deliver services. Individual charities need to clarify and publicise their roles and responsibilities nationally/in the communities they serve – clarity of purpose and definition of role inspires confidence and support. Family

Action has invested in new service development, impact measurement, branding and marketing in recognition of these challenges and to work towards overcoming them.

### ***Pressures and opportunities***

*What are the main pressures faced by charities currently, and what impact have these had?*

18. The charity sector, like the public sector, faces the challenge of maintaining adequate funding to deliver safe services that meet needs. We are continually asked to do more for less. We have had occasion to decline to tender for work that we would normally be delighted to deliver because the budget offered was nowhere near enough to deliver what was asked, and we could not expose the charity to the risk of not being able to make up the shortfall in funding. We are seeing a tendency for Local Authorities to offer much shorter contracts and we are also seeing an increase in tendered services either being withdrawn before award or foreclosed before the end of the contract term. This is very concerning for charities, as bidding for work and the transfer in of services takes significant time and effort, not least because of complex TUPE issues, recruitment and restructuring challenges and the impact of relationship issues with previous providers.
19. Despite calls for more early intervention services, it remains very difficult for Local Authorities in the current financial context to shift significant amounts of spend to early intervention and prevention. Reduced Local Authority budgets mean there is usually more emphasis placed on delivering statutory services, and increasingly charities are being contracted to deliver services that in the past would have been seen as very much within the realm of statutory responsibilities. There is also an increased demand on the services we deliver to meet higher level needs – due to thresholds being raised for statutory provision. The reduced availability of Local Authority funding also means fundraising – the quest for voluntary income to deliver/supplement services – is ever more competitive.

*What opportunities do charities have in the current environment?*

20. The need to diversify income has encouraged us to look for innovative ways to fund and deliver activities. It has also improved partnership working as siloed working between the public, private and charity sectors is just not viable.
21. In order to maintain services and continue to grow, Family Action has actively sought out opportunities for income diversification and organisational development. We seek out positive mergers with other charities and are investing in the evaluation of our service models and our capacity to increase our digital offer. We have been able to expand our training and consultancy work with Local Authorities, who recognise that we can offer a competitive package both financially and in terms of the knowledge and skills we offer.

*Are there specific pressures affecting particular types of charity (for example, service delivery charities; charities reliant on fundraising income; charities with a rural focus; smaller or larger charities; or charities promoting a particular cause) that you can highlight?*

22. Over-reliance on any one income stream leaves a charity at risk. Charities have to focus on income diversification and developing a more commercial approach, but this can be contrary to the prevailing culture of an organisation. Family Action has been bold in pursuing a successful income diversification strategy over the last three years. We have been particularly careful to balance our service portfolio, both in terms of size and range, so that we are not too vulnerable in any one area should a funding source be cut or end. We have also been vigilant in trying our level best to hold onto the income that we already have by focusing very hard on the quality of our service delivery, our ability to evidence the impact of our services and developing strong working relationships with our commissioners.
23. Smaller charities are not able to compete with large national charities that have significant funding and numerous staff - yet they face similar challenges. The cost of tendering for new

Local Authority contracts is considerable and can be prohibitive – some small/medium charities are simply not able to afford to invest the staff hours, effort to secure ISO accreditations, legal costs or travel costs to attend dozens of ‘market warming’ and ‘competitive dialogue’ meetings prior to the tender release. Children England has previously undertaken some helpful studies to collate and analyse costs to charities – the situation/costs have worsened considerably now.

### **Innovation**

*How do charities seek to innovate, particularly in the digital arena?*

24. We are increasingly using digital technology to provide low level or follow-on support, and digital communication tools allow us to reach wider audiences. This is both internal and external – for example, we use digital technology such as WebEx to facilitate practice sharing between staff who are geographically distant from each other. Training can also be provided digitally and we use social media for awareness raising, without the need for specific investment in a traditional campaign.

*What more could be done to promote innovation, and by whom?*

25. There needs to be continued work to link government departments (especially in terms of budgets) and reduce siloed working. Many service users have multiple, interrelated, needs which do not fit neatly under one department’s responsibility, and therefore innovative new services are required with investment across departments in order to meet need and prevent future intervention from being required.
26. Corporate partners could enable charities to learn from commercial experience that can be translated to the charity sector, such as marketing and business management. Practice sharing in general across all sectors and within the charity sector could promote innovation.
27. Please see paragraphs 45 and 46 regarding social investment.

*What barriers are there to being innovative?*

28. Reduced Local Authority budgets are a reality, but it is vital that we do not lose our capacity to innovate and to find better ways of spending the same amounts of money. Charities can help enormously in that challenge but bureaucracy around commissioning and procurement in a competitive marketplace can stifle innovation in practice and stop positive change.
29. It requires time and resource to develop new services or ways of delivering charitable activities. Charities are immensely skilled at testing new ideas quickly and seeing if they work, but often they need just a bit of investment to get an idea going and prove a concept. Too often raising that initial investment is just very, very hard. This is not an argument for more money but rather a redistribution of the money that is available in the system. If charities are good at innovating then let’s help them to innovate.

### **Governance and leadership**

*What skills are required to lead and manage a charity?*

30. Trustee Boards must have the ability to be ‘critical friends’, encourage innovation and challenge the status quo. They must have commercial/business experience in order to run the charity in a business like way. Charity leaders need passion, change management skills, the agility and political skill to manage changing landscapes and the interpersonal skills to build relationships, inspire and be people-focused. Business management skills in relation to finance and service development are required, with the ability to develop processes and infrastructures whilst maintaining high quality, safe service delivery.

*How can these skills be gained?*

31. These skills can be gained through practice sharing across all sectors, especially in the case of commercial organisations, and by ensuring that charity leaders are networked into their own circles of support with colleagues in similar roles. Formal partnerships with commercial or public sector organisations that can support improvements or promote innovation in back office functions would also be beneficial. For example, we are currently working with the Department of Health through their Connecting for Change Programme in order to share their Analysts' skills in data collection and evaluation.

*What support exists to develop these skills within the charitable sector?*

32. There is a range of support to develop these skills – informal peer support groups exist, and there is some formal training available, such as Cass Business School's Charity Management department. Perhaps we should give more attention to the range of skills held by our charity leaders in the same way that we celebrate the skills of leaders of big businesses. It would be interesting for there to be more sharing of the experience of charity CEOs and Trustees in terms of what people have learned over time and how they have developed their skills. Too often people come together to talk about what has gone wrong or what must be done differently rather than to talk about what has succeeded and what others could learn from.

*What role should trustees play in the performance and effectiveness of a charity?*

33. Trustee Boards need to be diverse in terms of experience and background. Charities need business-like, financially literate, innovative, passionate, values-driven, impact-focused Trustee Boards as they are ultimately accountable for performance and effectiveness of the charity. Trustees need to challenge and probe but also support and encourage.

*How can trustees be best equipped, enabled and supported to fulfil their responsibilities?*

34. A good programme of induction helps, along with regular training on key responsibilities. We find service visits help Trustees to gain a better understanding of the work of the charity, and it is always helpful for Trustees to be able to talk to a wide range of staff. Board papers need to be of very high quality, be sent out in good time and must contain enough detail to enable Trustees to fully understand the issues so that they can make good, evidenced decisions. We encourage individual Trustees to focus in on particular issues/areas relevant to their professional skills, such as organisational development, finance or HR, so that they can add additional value to the charity through that route too. Board meetings must encourage debate but also encourage corporate decision making too so that everyone is clear when a decision has been made. Peer support from other charity trustees enables shared learning.

**Accountability**

*How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public?*

35. Charities can ensure accountability through rigour and openness in all that they do. It is important that services are co-produced and person centred. We ensure we have appropriate accreditations and quality marks, such as ISO 9001, and are investing in a programme of high quality evaluations of our work. It is important that charities complete timely and accurate accounting and reporting and have robust subcontracting and partnership agreements.

*How should charities assess their long term viability and/or sustainability?*

36. Family Action monitors service retention using a 'red, amber, green' (RAG) rating for each service based on the likelihood of retaining the contract. We assess the value of upcoming gains and losses to form an accurate and dynamic future financial picture. We also carefully

monitor the use of reserves and income versus spending and assess the success of new ventures/investments and ensure they are discontinued if not performing. Family Action conducts robust break-even and return on investment analysis or full cost recovery analysis. On any one day we know exactly where we are in relation to the money coming in and out of the charity and we pride ourselves on that.

### **Resource management**

*What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?*

37. The reduction of income from Local Authorities and government grants, short length of contracts and increased foreclosure of services are all challenges. It sometimes feels that commissioners offload risk on to charities – illustrated by the common lack of timely TUPE information during tender processes. There is poor commissioning practice – examples include one location where we expended approximately 300 work hours to resource a bid, won the tender, and then the Local Authority stated it did not actually have enough money to award the contract for the service. Recently a tender we were working on was withdrawn 1.5 hours before the deadline – we, and no doubt other organisations, would already have submitted our confidential bids by that point.

*How can these challenges be overcome?*

38. Diversification of income reduces the risks charities face. One area of funding that needs to be explored further is social investment. Local Authority commissioning practice and expertise also needs to be improved. Charities should invest in business management training for leaders and ensure the Trustee Board has adequate financial and business expertise.

*How can best practice and information be shared across the sector?*

39. Family Action belongs to/chairs a range of alliances and umbrella bodies in order to share best practice and information - including the Maternal Mental Health Alliance, Children England, Alcohol and Family Alliance, etc. Trade press is also important, such as Children and Young People Now.

*What lessons can be learnt from past mergers or dissolutions of charities?*

40. The sector needs to learn that not all mergers are a result of failure, and they should not be a last resort. For example, in 2015 Family Action proactively merged with Friendship Works in order to make both organisations stronger by combining our talents and diversifying our service delivery. Past mergers and dissolutions are also opportunities to learn about how to manage relationships with funders and staff.
41. It can be seen from the dissolution of Kids Company that it is imperative a charity is not too reliant on a single source of income, and is robust in measuring the impact of money spent. Charities and Government should work in a manner that ensures the dissolution of a charity would not mean that service users are left without services and valuable functions are lost.

*How can charities effectively deliver services and be assured that their work achieves successful outcomes?*

42. A clear Theory of Change, objectives and detail about how these will be monitored should also be set out before the service commences. Monitoring needs to include robust measurement tools and charities should also have a programme of service evaluations. Family Action uses an electronic service management tool, InForm, to collate and store service monitoring data safely and efficiently. This enables us to have all of the information we need at our fingertips.

*What are the benefits and challenges of funding for charities being derived from commercial contracts?*

43. Commissioners often choose the winners of tenders for the provision of service contracts based on the principle of 'most economically advantageous tender' (MEAT) regardless of whether the provider is a charity or not. This makes winning commercial contracts highly competitive and potentially risky for charities, as we must meet the same procurement rules and general legal principles as a commercial organisation. It is also costly to tender, with legal advice often required, so charities must carefully balance offering a low price in order to have the best chance of success, with being economically viable, as there is often no provision for charities to terminate contracts should they run into delivery difficulties. The shorter length of Local Authority contracts and increasing number of service foreclosures makes it more difficult for charities to budget in advance and build up reserves to sustain the organisation should contracts be lost. It also requires more resource from both providers and Local Authorities to reassess contracts and specifications more frequently.
44. The focus on cost and outputs rather than outcomes based Key Performance Indicators (KPIs) can risk the commoditisation of services. There are often delays surrounding agreement with commissioners of what KPIs can be reasonably achieved within the budget and contract time frame.

### **Social investment**

*What is the potential of social investment and social impact bonds?*

45. Social investors potentially have more appetite to trial new ways of working that do not yet have strong evidence bases. This should help to drive innovation. Family Action has managed to finance a new, previously untested, service called Safe Haven through the use of social investment. This service will give vulnerable young people in care access to a local Safe Haven – a place where a young person can receive help and support, run to in a crisis, eat etc. It gives a young person the opportunity to stay in their current placement but with much greater day to day flexibility and with bespoke and intensive wraparound support, thus avoiding a complete breakdown of the placement.

*What are barriers to fulfilling their potential?*

46. In our experience securing the financing for our social investment was less of a challenge than finding commissioners who were willing to embrace the concept and pilot an unproven service. Safe Haven has taken fully two years to develop. If the social investment market is to achieve its potential then more thought needs to be given to how the market can stimulate innovation rather than just help to finance it. In the private sector innovation is funded through the concept of equity where an investor takes a stake in a business or a venture that is as yet unproven. In the charity sector we operate "not for profit" so taking an equity stake just is not an option. Instead, perhaps we could have a system where money is put forward by a social investor to pilot an idea and then if the idea works the investor gets an enhanced rate of return on their investment. There would inevitably be winners and losers as some ideas would succeed and others would fail, but overall, and with good judgement, the successes should outnumber the failures. The risk here could be shared if groups of social investors clubbed together to create a pooled fund to pilot the best new ideas. Social Impact Bonds (SIBs) are just a type of financial product but somehow they have become synonymous with social investment and we should challenge that. Many charities don't need a SIB, they need another type of social investment product - perhaps a loan, but a loan which deals imaginatively with how risk is shared.

### **The role of the Government**

*What should the role of Government be with the sector?*

47. Government should encourage innovation and best practice, and measure and publicise

the benefits the sector provides for the country. We need to ensure that at the same time as regulating what charities do and how they are managed we also give an equivalent amount of attention to supporting, incentivising and celebrating what they are brilliant at as well, such as innovation and community development.

*What should be the role of local Government?*

48. Local Government should also encourage innovation and best practice, both within service delivery and their own commissioning practice. Local Government should have an excellent understanding of local need in order to commission the best services to meet this and raise awareness of need at local and national level. Local Government should strive to maintain a dynamic and vibrant charity sector locally as we have so much that we can do to support the role of local Government.

*What should be the role of the Charity Commission?*

49. The Commission should ensure there is strong regulation and that it has the ability to act as necessary in order to uphold the reputation of, and trust in, the charity sector. It should also assist charities to meet requirements through business management support. It should also play its part in celebrating the best of the charity sector and the overall contribution of the sector.

*Have these relationships changed? If so, how?*

50. The Commission appears to have been given stronger powers, but does it have the resource to use these rigorously?

*How should Government (national or local) focus its resource to deliver its civil society agenda?*

51. Government should recognise and celebrate the contribution of the vast majority of the charity sector and be imaginative in promoting the development of innovative services. Support for the development of social investment is important but this needs to be done in a way that enables the charity sector to innovate more freely than at present.

*What is the likely impact of greater local devolution on the charitable sector, or particular types of charity? What are the opportunities and challenges associated with local devolution?*

52. Local devolution is likely to lead to an increased number of different service models tackling the same issues in order to meet the specifications of local Government. This is potentially very exciting if it embraces the full range of talents across the charity sector. One risk is that we have bigger and bigger contracts that only huge charities can go for, or that are only attractive to the private sector.

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