



Management Insights

For people leading not-for-profits

An update for not-for-profit chief executives and board members who want a better understanding of the external issues influencing their organisation. Every few months we review the landscape and provide a commentary and links to articles about the economic and political trends buffeting the sector and discuss how managers can respond.

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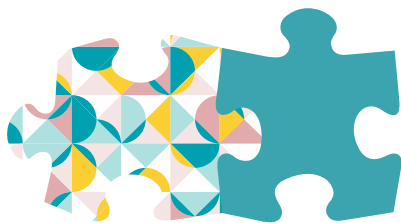
June 2015

Economic & Political Trends

Election outcome brings new opportunities and challenges for the sector

May's general election result will have come as a surprise to many, given the immense uncertainty in the lead up and the widespread assumption we would be looking at some sort of coalition agenda. But the election of a majority Conservative government does give the social sector welcome clarity, as it means we can work from an assumption that their party manifesto alone will form the basis of future policy (in the campaign, [only 2% of charity respondents](#) to a Charities Aid Foundation survey felt that politicians had been clear about policies for the sector). The existing [Civil Society Minister Rob Wilson](#) has also remained in post, which may allow the sector to benefit from all-important continuity and to continue to watch for priorities Wilson outlined in the previous parliament, including the [Local Sustainability Fund](#).

- In [Third Sector](#), [Stephen Cook](#) summarised what the election result meant for the sector. Public sector cuts will continue at a fast pace, which particularly represents a challenge for charities in the social welfare and criminal justice sectors (pre-election, the accountancy firm Baker Tilly also confirmed two-thirds of charities were [concerned about the possibility](#) of post-election funding cuts). Cook did note that the government will continue to foster and promote social investment, but said "the extent to which it will take off remains unclear"



- There has been a lot of controversy around the Conservative policy on Right to Buy for Housing Associations, which some see as unprecedented in the sense that it involves exempt charities being required to sell assets at below market price, though [some have speculated](#) whether the Conservatives may ease off on the policy in some way
- [The Conservative manifesto](#) did strongly back volunteering – including a legal entitlement to three days of volunteering leave - and made clear a desire to make public contracts more available to not-for-profits and small businesses (though it also emphasised Payments by Results contracts, which continue to represent a financial challenge for many sector organisations). The manifesto also pledged to double the Aid Match scheme, which matches donations to charity from the aid budget

In this edition we highlight:

- What May's general election result means for the sector
- What the collapse of BeatBullying told trustees about their duties
- Other news items boards need to know about

The election results points to a continued lack of public funds and greater prominence for both Payment-by-Results contracts and social investment. Trustees need to start considering how this new policy environment affects the prospects of their charity, especially with regard to the funding situation.

Sector issues – what boards & CEs are talking about

2015 has so far been another busy year in the world of charity board governance, with numerous reports and pieces of guidance issued to help trustees better advise, guide and scrutinise their charities. Here are some of the highlights.

Charity Commission CE – “it’s okay to call it a day” and merge

Charity Commission chief executive [Paula Sussex told charities](#) that mission should trump sustainability for charities, telling them that “If you aren't making a difference, it's okay to call it a day” by merging or closing down entirely. In a sector that remains heavily duplicated and features 164,000 organisations competing for scarce resources, this is valuable advice that should be heeded

- On a similar note, Alex Swallow of the charity Resonate Connect argued in [a blog that one of the five flawed motivations](#) of some in the sector is the prioritisation of their charity over its cause – “I have seen countless examples of charities not working together when they should; not merging when they should; not winding up when they should and not being advocates for each other when they should...Not enough people in the sector, in my experience, have an abundance mentality. They fight hard for their share of the pie, not realizing that by working together they could open a pie shop!”

Charities should embrace managed risk, NPC finds

A poll by New Philanthropy Capital (NPC) found that [the public are pragmatic about charities taking risks](#) (they do not mind hearing about past failures) and are more likely to support charities that make their decisions based on clear evidence rather than abstract values alone. This knowledge should free charities to act decisively amid a tough funding environment.

NCVO Almanac

The National Council of Voluntary Organisations (NCVO) has published its [2015 Almanac](#), reviewing data up to 2012/2013 on the state of the voluntary sector.

Key takeaways include:

- Investment income rose 0.6%

- Earned and voluntary income combined increased 1.4%, but a trend of earned income replacing voluntary continued (and earned income has doubled since 2000)
- The sector makes a £12.6bn contribution to the economy and its workforce increased, but it has not returned to pre-recession size yet
- There was a £1.7bn fall in public funding from grants and contracts since 2010/2011
- In 2012/13 the sector received £13.3 billion from government bodies, of which 83% was earned through contracts or fees – this is part of a decade-long trend of increased sector reliance on contracts, as opposed to grants

Board stories

Civil Society’s [governance editor Dorothy Dalton noted](#) that while “most charities have risen to the occasion” in the face of the challenges of the last five years and developed effective governance, research shows five ways boards could maximise the value they contribute. This includes building confidence and trust in the executive team, fostering a relationship between the chair and chief executive, stronger leadership from the chair, engagement of the non-execs and an improved environment and culture. It also found that chairs needed a deep understanding of the organisation (especially its capability to respond to challenges), should be able to prepare the organisation for change through frank discussions and could provide ‘air cover’ to help the chief executive bring about change, among other qualities and skills.

A [report by the mental health charity Mind warned](#) that though the appointments of more service users could be good, there was a series of questions charities can ask themselves to ensure they weren’t “tokenistic”. Charities should ask what the objective of the appointments were, what impact they could have on decisions and what barriers tended to exist to service users becoming trustees, it argued.

Also on the subject of the makeup of boards, [accountancy firm Grant Thornton found](#) that gender diversity has fallen on the boards of the top 100 charities, showing that the sector needs to make more inroads here.

These developments remind trustees that there is support in the sector for bold action, including mergers and there is much to be gained from embracing a culture of “risk and reward”, including the use of social

investment to drive growth. They also show how boards can work to make themselves more impactful

and representative.

Comment: Lessons from BeatBullying

Eastside Primetimers business analyst Elliot Bidgood writes about what the sector can learn from the fate of BeatBullying and the Charity Commission's subsequent report.

The dramatic collapse of acclaimed anti-bullying charity BeatBullying last October served as a powerful reminder of the need for charity trustees to be vigilant against mismanagement. At the time, a drip feed of stories in the sector press gave us a partial insight into what went wrong, but in March, the [Charity Commission published](#) the results of its own formal case report.

BeatBullying was established in 2003, winning numerous awards in its 11 years. In 2012 it reportedly ran 6,000 sessions for its primary beneficiaries, young people facing bullying. In 2011, then-Minister for Civil Society Nick Hurd had personally awarded the charity a £1.3m grant under the Social Action Fund. These facts made the charity's rapid fall from grace all the more shocking for many in the sector.

The Commission case report put BeatBullying's collapse largely down to overreliance on grant funding and a lack of reserves. The charity was already in difficulty even before 2014, but it was the non-receipt of two expected grants totalling £1.4m and subsequent nerves among the charity's other funders that compounded the charity's cash flow problems and forced liquidation. The Commission did defend BeatBullying's trustees to a substantial degree, stating that "Arguments could reasonably be made that the trustees had grounds to believe that they would achieve the funding" sought – for example, an application submitted for a key EU grant only missed the mark by one point. Trustees also made efforts to secure funds, re-negotiate contracts and seek support for financial modelling, while bi-weekly meetings and daily calls were organised to speed up decision-making. Some redundancies were also made and trustees investigated finding a buyer. However, these efforts were ultimately unsuccessful.

Worse, the Commission found that "BeatBullying was not in compliance with its own reserves policy and had no reserves". The trustees worked to secure grants in an attempt build up reserves, but these efforts were hampered by the conditions attached to some grants (as an aside, this reminds us grants are an imperfect form of funding for charities to rely solely upon).

The Commission therefore concluded trustees had performed their duties, but that charities that choose to rely on grants are "always going to be vulnerable due to the 'hand-to-mouth' nature of such funding, along with the fact that some grants are given with conditions attached". This point was at the top of the Commission's list of what other charities can learn from BeatBullying, since the case showed that even "experienced charities with conscientious trustees at the helm" could struggle. Instead, it was suggested charities should develop robust business plans and diversify their funding. The Commission also recommended that boards educate themselves about closure mechanisms, reserve levels and serious incident reporting.

From a point of view of disclosure, the Commission suggested that BeatBullying trustees could have revealed the extent of the financial problems earlier, and implied that more could have been done to warn volunteers, beneficiaries and staff (a [story in Third Sector](#) suggested 14 new staff hired in 2014 - despite the difficulties - felt they weren't informed). However, the Commission also ceded that the charity's duty to its creditors was a constraining factor here. The Commission was clearer that BeatBullying had net current liabilities, but failed to explain the issue to funders and stakeholders in their annual reports (the same is true of two in every five charities with net liabilities, according to Commission research).

Not referenced in the report are suggestions in [Third Sector's](#) story that the charity tried to expand, despite its insecure funding base. For example, it began providing online support for people with cancer, despite criticisms that demand for this sort of service was already being met by established charities. While this was an attempt by BeatBullying to secure new funding streams, it nevertheless represents another lesson for the sector about demand and duplication.

Finally, the redundancies were handled "poorly" and BeatBullying as a whole was "top-heavy" in management. It was observed that some existing staff were apparently under-utilised, even as others were overworked or contractors were drafted in. Between August and October 2014, many staff were informed that they would not be paid their usual salaries in full, and staff were reportedly critical of how this news was

broken. This all says that on top of the lessons we can learn about sound financial planning and openness, there are also clear takeaways from the standpoint of HR management.

So the cautionary tale of BeatBullying is that financial and disclosure obligations must be observed diligently,

and crises handled well. But it also reinforces the point that to see crises off altogether, charities need diverse funding and to be open to difficult decisions about merger and collaboration – trustees have a vital role to play here.

Comment: Harnessing the power of data: are we missing a trick?

Eastside Primetimers consultant Rosie Chadwick writes about social impact and how the not-for-profit sector can make better use of data to measure it.

Popular US blogger and technology consultant Beth Kanter talks about the 'Five Stages of Measurement Acceptance' commonly experienced by not-for-profits. These range from denial (stage one) to fear, confusion and delight to the giddy heights of being data informed (stage five). Ask many in the UK social sector which of these stages they were at and I doubt you'd find many in the upper echelons.

The barriers to making more effective use of data, including data on impact, have been well-rehearsed. As NPC colleagues highlight in their paper on [The Power of Data](#), common challenges include a lack of capability: not having someone – or having too few people – who understand how data can help improve performance and have the necessary skills in data analysis and interpretation.

Some ventures may look to bridge this gap by recruiting specialist data analysts or seeking volunteer support, for example via DataKind. However, there is

another route I think we could be making much more use of. Finance teams are naturally skilled at interpreting rich and complex data, identifying key drivers of financial results, and distilling complex information into a simple narrative. Applying these natural skills to improvement of operational performance can unlock significant value.

Making better use of financial information and finance skills in data interpretation to drive performance improvement has its own challenges. It takes leadership: the finance and operational communities both need to see the potential from bringing the two communities together. It involves risk taking. For finance professionals it means stepping into uncomfortable areas where accounting standards mean little, and for operational professionals it means being challenged by new ways of looking at performance. But when finance professionals love operational data as much as they do double-entry; and operational professionals recognise that financial skills can help them deliver more outcomes for less, ventures will be that much closer to the fifth (data informed) stage of measurement acceptance.

Eastside Primetimers is a management consultancy working exclusively for charities and social enterprise. We are committed to spreading management ideas to people running organisations that change the world for the better.