



# Charities in a dynamic world

Insights from the Charity Learning Series





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# Foreword



At this time of disquiet and reflection about Britain's role in the world, the national unease is mirrored in a sense of uncertainty about the role and purpose of civil society. Barclays and

Cass CCE have hosted this series of stimulating conversations exploring how charities can ready themselves for whatever opportunities are there to be grasped, and whatever change may come.

The seminars that are reported in this booklet, "Charities in a dynamic world: insights from the Charity Learning Series" produced some great discussions and some very practical suggestions. They are summed up for me in the quote to "choose to say yes; learn to say no".

Whether charities are thinking about risk, sustainability, innovation or strategy, the emphasis is on being conscious of the choices that need to be made - it is even referred to as being 'mindful' - that vocabulary reinforcing the sense of deliberate and purposeful decision making.

Charity trustees and executives have much to consider and many pressures to address. Should they merge or collaborate more? Should they invest for the long-term or deal with current crises? Have they the will and the skills, as one of the findings puts it, to prioritise ruthlessly?

Charities need to be part of the fundamental debate about purpose and role. They also need to focus on doing what they do well and then doing it better. This report from the Cass CCE/Barclays' seminars will help them do just that.

**Lynne Berry OBE**

Chair of Trustees, Breast Cancer Now  
Visiting Professor, Cass Business School

# Introduction

With the tough operating environment charities find themselves in, how can they become more sustainable, have greater impact for beneficiaries, and manage the huge demand that exists for their services?

Barclays and Cass Business School Centre for Charity Effectiveness (Cass CCE) wanted to foster deeper, more insightful conversations around the key issues facing the sector. We wanted to really explore the issues in order to provide useful lessons for the future.

This led to the Charity Learning Series, set around six working lunch events across the UK. These conversations examined key topics that senior leaders in the charities sector identified as important to them through a poll at Barclays National Charities Day.

Facilitated by industry experts with a passion for their own particular subject areas, these events allowed participants to really debate the key issues for the sector, with time to think and have nuanced conversations.

This report is a result of those conversations on the six key topics identified: sustainability, efficiency, collaboration, risk appetite, reserves and innovation and scalability.

We look at each topic in turn, including some key questions for charities to consider, as well as summarising the common themes emerging from the series.

We would like to profoundly thank our expert facilitators and the many charities that took part for their engagement and insights.

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*The views expressed in this report are those of the charities taking part in the Charity Learning Series.*

## Charity Learning Series facilitators

### **Collaboration**

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### **Sustainability**

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### **Efficiency**

Jo Keaney, Director of Finance and Shared Services, St John Ambulance

### **Risk appetite**

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### **Use of reserves**

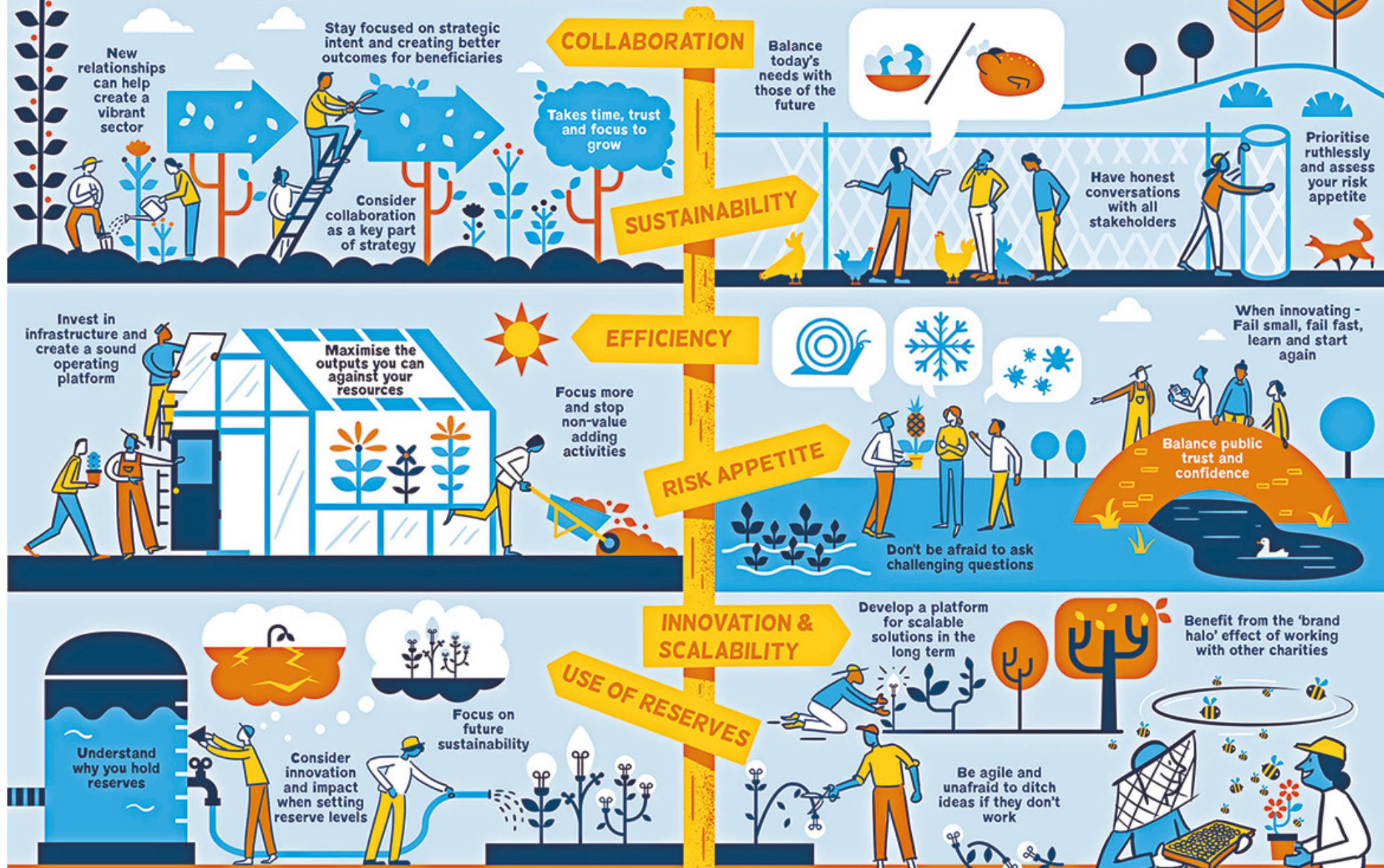
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### **Innovation and scalability**

Jason Grad, CEO, Bstow



# CHARITIES in a DYNAMIC WORLD





# Collaboration

Better collaboration and partnerships can maximise the value of what charities do by working with, and through, others. Charities should consider collaboration as a key part of their strategies in relation to resource and impact.



The voluntary charity code of governance specifically asks charities to consider collaboration and partnership working. However, this is a very different way of working compared to direct implementation and therefore takes time, effort and energy to consider. Charities shouldn't

assume that this is business-as-usual or that they have the in-house skills to do this. The code also asks charities to think about appropriate mergers and acquisitions.

While collaboration can help create a vibrant sector through change and innovation, the

purpose of this has to be clear. For example, is it aimed at efficiency or greater reach? Based on our discussions, the view among charities is that they need to stay focused on strategic intent and, ultimately, impact for beneficiaries.



It takes time, trust and confidence to build and align outcomes and ambition between partners. Governance and accountability will be key to clearly determining roles and ensuring effective oversight. Effective due diligence and developing a clear business case are also

critical and charities can learn a lot from how the commercial sector approaches this.

Collaboration can bring together the dynamism of small charities with the stability of larger ones, or create a new space between charity, government and the corporate sector for example.

## Key questions for your charity

### Maximising resources

- Does your charity consider collaboration and partnerships as part of either your strategy, or as part of a review against the voluntary charity code of governance?

### Strategic intent

- Are you clear on the strategic intent of your collaborations or partnerships, such as creating greater reach or impact for beneficiaries?
- Can you provide effective oversight of your collaborations and partnerships and do you have the in-house skills?

- Have you carried out effective due diligence and sufficient planning?
- Have you thought about mergers or acquisitions?

### New relationships

- Have you considered how you could be more effective by working better with government, corporates or other charities of different sizes?
- Have you considered how you will develop innovate ways of working in the future?



# Sustainability

Sustainability aims to balance today's needs with those of the future. It means doing right by beneficiaries both in the short and long term.



To respond appropriately to a changing world, charities say that they need to understand the external market place in which they operate, their direction of travel and their place in it. The consensus from our discussions is that charities need to be clear about their purpose, focused on

impact (including being able to demonstrate it) and able to understand their footprint and the change they create within it.

This places many demands on charities – ensuring they are trusted and honest, efficient and effective, not necessarily fixated on growth

but clear about the part they play in innovation or scaling up their work. They need to think about whether to compete or collaborate to achieve this.

The key is making sure that change is sustainable. This means prioritising ruthlessly, including stopping doing certain activities where necessary.



Many charities simply try to do too much. It also requires better and more honest conversations with funders about business-as-usual funding and overheads. Charities need a sound infrastructure and operating platform to deliver their work.

Building more sustainable charities is closely related to their appetite for risk and may require a greater willingness to accept the potential for failure in order to innovate. Becoming more sustainable may also require new relationships, whether with the commercial sector, charities of different sizes or through mergers and acquisitions.

## Key questions for your charity

### Strategic mind-set

- Do you revisit your strategy regularly and ‘broad scan’ the future to stay relevant?
- How do you ensure your charity stays focused?
- How do you sense and seize opportunities?
- How do you ensure your charity remains ‘generative’ – coming up with new ways to help beneficiaries?

### Working with funders

- Are you having honest conversations with government, funders and supporters?

### Risk appetite

- Do you actively and collectively discuss your risk appetite?
- Do you consider opportunities and risks and appraise these within a broad risk appetite framework?
- How do you evaluate potential new relationships and partnerships?

The above could be supplemented by the Charity Commission guidance (CC15): **‘Charity governance, finance and resilience: 15 questions trustees should ask’.**



# Efficiency

Many charities don't understand the concept of efficiency – maximising the outputs and outcomes they can achieve for beneficiaries against the resources they use. Some feel it's all about cost cutting.



This perception needs to change. Becoming more efficient is something every charity should focus on, so they can do more with scarce resources. A key part of this is becoming a more 'mindful' organisation: having the space to think, ask the

right questions and empower others to either ask them too, or to say no.

Charities may need to focus more tightly on maximising beneficiary outcomes and stop 'non-value' activities. There is much the sector can

learn from the commercial world in this area, for example its approach to procurement or sharing back-office functions.

The charity sector clearly needs to address the culture of under-investment in infrastructure at



the expense of frontline delivery, with a greater focus on investment for the long-term. The sector may need to develop a more investment-focused mindset and measure return on investment in both financial and impact terms. This also requires better use of data.

Infrastructure needs to be fit-for-purpose and charities could be less cautious about sharing back-office functions and technical resources. This will inevitably require appropriate benchmarks and better management information to enable change.

## Key questions for your charity

### Understanding efficiency

- Do your board and management have conversations about efficiency and how to maximise outputs and outcomes from the resources you use?

### Becoming mindful organisations

- Does your charity focus on creating outcomes for beneficiaries and challenge itself to stop non-value adding activities?
- Could you learn more from the commercial sector e.g. on procurement?

### Cost base and infrastructure

- Does your charity understand how it spends its resources?
- Do you benchmark yourselves against other charities?
- Do you ask searching questions about whether your infrastructure is appropriate?
- Does your charity invest for the future?
- Have you considered sharing back office functions such as IT, finance or technical capacity?



# Risk appetite

Risk appetite is the amount of risk (both positive and negative) a charity is prepared to accept in the pursuit of its long-term objectives.



Understanding risk appetite fully requires more nuanced conversations rather than the tick-box exercises common in the sector. Specifically, charities need to consider different scenarios and their outcomes. This requires trustees to ask appropriate and challenging questions, or to

defer to experts on more technical issues. Better conversations with funders around risk would be beneficial, instead of knee-jerk risk averse responses.

Balancing public trust and confidence is hard in the current climate. There is a general trend

against taking risks following high profile failures such as Kids Company. Charities need to consider how to take appropriate decisions in this environment and use the 'sniff test' of press reaction to gauge appropriateness.

The biggest risk to charities is doing nothing. The sector needs to innovate and evolve. Trustees should understand that it is okay to fail, as long as appropriate due diligence has

been carried out. Failure is a key component of learning and innovation, but the sector needs to get better at 'failing small' and 'failing fast', learning and starting again.

## Key questions for your charity

### More nuanced conversations

- Do your trustees and management have challenging conversations around risk and risk appetite, or is this viewed more as a tick-box exercise?
- Do you use experts to help review risk in technical areas?
- Do you have open and honest conversations with funders about risk appetite and risk of failure?
- Could risk be reduced through improved collaboration and partnerships?

### Public trust and confidence

- How are public trust and confidence considerations included in your conversations about risk and risk appetite?
- Do public trust issues influence your decisions significantly?

### Fear of failure

- How do you ensure your charity is innovating, evolving and focusing on creating value for beneficiaries?
- Do your trustees and management team carry out effective due diligence on business cases for new ideas?
- Do you anticipate and reflect appropriately on failure before starting again?



# Use of reserves

Free reserves are that part of a charity's unrestricted funds which are freely available to spend on any of the charity's purposes. This excludes funds which have restrictions on how they can be used, although holding such funds may influence a charity's reserves policy.



Free reserves will also normally exclude tangible fixed assets such as land, buildings and other assets held for the charity's ongoing use, as well as amounts designated for essential future spending (see Charity Commission guidance CC19).

Charities often don't understand why they are holding reserves – it could be to seize future opportunities, for working capital or as a contingency. For example many charities hold reserves on a cessation basis, say three months' reserves as contingency in the event of closure,

but most charities are going concerns so this may not be appropriate.

Based on our discussions, charities agree that reserve policies should be built around the likelihood of changes in income streams and





expenditure. They say they should consider reserve levels as appropriate for today's needs versus future needs.

According to Cass Business School research<sup>1</sup>, 23% of all charities feel they hold too many reserves. This could provide an opportunity for the sector to invest in itself.

Reserves should, of course, also be linked to impact for beneficiaries. They should be viewed as a portfolio of risk. With many charities spending down on reserves, there are some important questions facing the sector about how to break this cycle and become more sustainable. Some reserves could be held to help drive innovation.

### Key questions for your charity

#### Reserve levels

- Does your charity clearly understand why it is holding reserves?
- How does your charity balance today's needs versus future needs?
- Does your charity use its reserves pro-actively to generate impact or innovation?

#### Thinking deeper

- Does your charity consider impact when setting reserve levels?
- How do you use reserves as part of a finance strategy to develop greater sustainability?
- Do you use restricted reserves as a pro-active part of your funding strategy?

<sup>1</sup> 'Social Investment as a new charity finance tool: using head and heart' (2017), Cass CCE  
[https://www.cass.city.ac.uk/\\_\\_data/assets/pdf\\_file/0007/358864/CCE-Social-Investment-as-a-new-charity-finance-tool-using-both-head-and-heart-Report-May17.pdf](https://www.cass.city.ac.uk/__data/assets/pdf_file/0007/358864/CCE-Social-Investment-as-a-new-charity-finance-tool-using-both-head-and-heart-Report-May17.pdf)

# Innovation and scalability

Innovative, scalable solutions are critical to creating maximum impact in the future. Charities need to think about how new ideas can be scaled-up to have the greatest impact on the greatest number of beneficiaries.



Many charities have 'products' that are ageing. They need to innovate for the future. This means taking the time to think and learn from beneficiaries and others as charities grow. It is often a good idea to break big ideas into small targets to create sustainable change.

The charity sector has some critical issues to address, such as becoming more sustainable and developing appropriate infrastructures. This will help develop a strong platform for scalable solutions over the long-term.

This may require charities to learn from the commercial sector in order to be more agile and not afraid to ditch ideas that don't work – to 'fail fast', learn, adapt and reframe rapidly. It also requires supportive and challenging boards to come up with the best solutions.



Charities require the funds to enable them to prove new concepts. They may need to have more honest conversations with funders and use patient, long-term relationships to achieve this. Social enterprise and social

investment may be appropriate tools that can be used to address charity funding. Charities should also seek to benefit from their strong brands (exploiting their 'brand halo') in new partnerships and collaborations.

## Key questions for your charity

### Developing strategy

- Does your charity spend enough time thinking about how to innovate and develop new 'generative' ideas?
- Does your charity really listen to beneficiaries and clients?
- Has your charity got a solid infrastructure from which to grow?

### Delivering innovation

- Is your charity agile and adaptive, stopping ideas when they don't work?
- Can you reframe and pivot ideas successfully?

- What can you learn from the commercial sector about innovation and what does best in class charity innovation look like?
- Are your board and management asking challenging questions?

### New thinking

- Have you explored social investment and social finance?
- Do you understand the 'brand halo' effect of your brand?
- Are you having the right conversations with funders about innovation, new ideas and more patient funding?





# Summary - a vision for the charity sector

The outcome of these deep and wide-ranging conversations is a vision of the charity sector which is:



- Vibrant and energetic, harnessing the power of collaboration and partnerships to achieve change
- Sustainable, both in the short term and long term
- Properly funded and knowledgeable about what an effective infrastructure looks like
- Confident in itself as distinct from the commercial sector and able to explain the added value it creates for beneficiaries
- Focused on beneficiaries and outcomes which enhance lives, and able to stop 'non-value adding' activities
- Innovative and able to pivot, reframe and create dynamic change when required
- Aware of different business models, the interplay of income, expenditure and reserves, and understands the importance of margins and overhead costs
- Focused on being as efficient as possible
- Aware of its risk taking and risk appetite
- Able to have honest conversations with funders

To achieve this vision charities need enablers to come to the fore. The sector needs management teams and trustees to work together in good faith to provide good quality engagement, challenge and leadership.

A big part of this is seeing challenge as positive and an important part of good governance. The sector needs to learn the language of improved business cases and due diligence. It requires an appetite for risk where appropriate, not just risk aversion.

In this way, charities can avoid mission creep, prioritise effectively and stay focused on those they serve.

# Key takeaways

- Stay focused on better outcomes for beneficiaries, prioritise ruthlessly and tell a clear story of how you create value
- Explore new partnerships and collaboration, but ensure you have the skills to make them work
- Develop new relationships combining the vibrancy of small charities with the stability of large ones
- Balance today's needs with those of future beneficiaries
- Consider the infrastructure you will need to be sustainable in the future and how commissioners can support this
- Maximise the use of your resources to become as efficient as possible
- Have honest conversations with funders about the long term, risk appetite and potential failure
- Understand the balance of risk and reward, rather than viewing these as merely tick-box exercises
- Learn from the commercial sector's approach to pricing, valuation, embracing change and return on investment
- Think about how to be more agile and take faster decisions to seize new opportunities – learn how to 'fail small' and 'fail fast'
- Invest time in thinking 'generatively' about new ideas, for example embracing social enterprise, social finance and digital transformation
- Make sure you fully understand the interplay of income, expenditure, overheads and reserves for each of your activity streams.