Subject: FW: A Hornet's Nest - a request
Date: Tuesday, 15 December 2015 13:58:36 Greenwich Mean Time
From: Karl Wilding
To: Karl Wilding

From: Gina Miller | TFF <gina@trueandfairfoundation.com>
Date: Thursday, 10 December 2015 16:50
To: Karl Wilding <Karl.Wilding@ncvo.org.uk>
Cc: Jacqueline Parker | TFF <jacqueline@trueandfairfoundation.com>, Arabella Shewry <Arabella.Shewry@ncvo.org.uk>
Subject: RE: A Hornet's Nest - a request

Dear Karl

Thank you for your email. I am very aware of many of the items / links you have kindly emailed me.

In terms inaccuracies in our Report – there are some minor ones I thank you for, which we will amend. Others we disagree with.

Warmest wishes,

Gina Miller

Be kinder than necessary – most people are fighting some kind of battle

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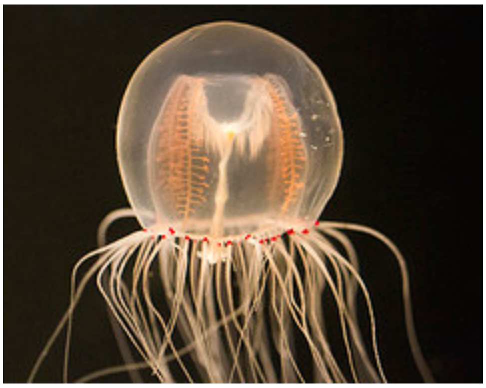
From: Karl Wilding [mailto:Karl.Wilding@ncvo.org.uk]
Sent: Thursday, December 10, 2015 2:49 PM
To: Gina Miller | TFF <gina@trueandfairfoundation.com>
Cc: Jacqueline Parker | TFF <jacqueline@trueandfairfoundation.com>; Arabella Shewry <Arabella.Shewry@ncvo.org.uk>
Subject: RE: A Hornet's Nest - a request

Hello again Ms Miller,

Thank you for taking the time to reply.

It is indeed our role at NCVO to represent charities and in as much as we protect their interests it is because they are charged with benefiting the public.

As such, we not only represent charities, but also provide leadership and challenge, including on issues such as transparency and accountability. I'm writing to again offer my help as we believe that charities should be transparent and accountable: look for example at http://blogs.ncvo.org.uk/2014/08/20/transparency-and-charity-campaign-spending/ We are not in the business of defending bad practice.



Charities, transparency and campaign spending: rights and ...

One Response to Charities, transparency and campaign spending: rights and wrongs. Pingback: Aspirations and reality—how the voluntary sector can achieve even more - NPC

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You have understandably challenged me to identify factual errors. I would highlight the following, all of which are factually incorrect:

- *'there are no rules or guidelines on annual dispersal rates or overhead costs, guidelines or caps on Chief Executive's salaries or bonuses'* (p4): both NCVO and the Charity Commission provide guidance on senior salaries. For example see: https://www.ncvo.org.uk/images/documents/about_us/our-finances-and-pay/Executive_Pay_Report.pdf
- *'the Financial Reporting Council has allowed charities themselves to design their own accounting standard'*. But if you look at the SORP committee: http://www.charitysorp.org/about-the-sorp/charities-sorp-committee-2015/ half of the full members are charities the other half are not; and none of the 4 observer members, none are charities. Anyone involved in the charity audit and accountancy world can tell you charities do not write the SORP: why not ask Prof Noel Hyndman, who is on the Committee, and is as independent as they come: http://pure.qub.ac.uk/portal/en/persons/noel-hyndman(8ab30b36-07ed-4bd7-9984-2035c2643bd6).html (You'll also see he's got a paper coming out soon on transparency and

reporting the efficiency of charities)

- *'why are other leisure centres not set up as charities?'* (p6) There are many leisure centres set up as charities: in 2010 there were at least 70 according to this report from a firm of solicitors, which argues there are many advantages for both local authorities and the populations they serve: http://www.wslaw.co.uk/site/uploads/publications/1311849003.3533.pdf
- You say '*In almost every other field, one would expect a larger organisation to have lower overheads than a smaller organisation and therefore be more productive or efficient. Not in the charity sector',* but this isn't backed up by the table below it – the largest charities (over £50m) have the largest average charitable spending in the sample.
- The Charity Commission for England and Wales isn't called the Charities Commission.

There are other meaningful misunderstandings, such as your concern about Cancer Research UK having more employed in fundraising than charitable activities. I'm not sure whether you realise that CRUK largely funds researchers in other organisations, primarily universities across the UK. This is a common practice for medical research charities. The Association of Medical Research Charities would tell you that charities fund over a third of all publicly funded medical research in the UK.

We also disagree on the analytical framework you provide. I would ask you to consider the following:

On large amounts artificially lowering your % ratio:

- Large gifts are not received every year, contrary to your assertion: in the case of the Racing Foundation, the Tote can only be sold once – and even smoothing the impact over 3 years will not make a difference.
- The same problem applies to your method for charities that merge (where the asset of the charity that is taken over is added to the annual income of the charity that takes it over).
- Likewise, legacy income is notoriously uneven and as such the incoming resources of large charities do go up and down each year. If you don't believe me, ask an independent expert on legacies such as Meg Abdy of Legacy Foresight: http://www.legacyforesight.co.uk/
- If you don't believe me, look at NPC's Guide to Charity Financial Analysis. NPC was established by City equity analysts and they pointed out that *"the SOFA includes all the resources available to the charity—even including capital such as new endowments and donated assets and services. This differs from commercial profit and loss accounts."* You can find the guide at http://www.thinknpc.org/publications/keeping-account/keeping-account-2/?post-parent=9184

On trading:

- Your interpretation of charity accounts is likely to mislead readers when you argue that fundraising costs exceed that spent on charitable activities and produced a ratio that is meaningless.
- In the Sue Ryder case for example, an analyst would compare the income from generating funds with the cost of generating funds. In the case of Sue Ryder, this is predominantly from running a retail operation (£68,939,000 of income, generated by spending £45,685,000), fundraising (£14,347,000 income from spending £4,728,000). It then used its surplus to spend £42,585,000 on its charitable mission. The relationship between specific income lines, and cost lines, which can be found on the SOFA is a far more useful metric to assess the efficiency of operations than the metric you use in the report.
- As an aside, you note the 'disbenefit' of charities receiving tax reliefs in relation to these activities;

a balanced analysis would note their contribution of tax and NI, their presence on the high street, role in recycling etc – all of which has been explored by independent analysts: http://www.bbc.co.uk/news/uk-25083483

On efficiency:

- There's been a lot written about metrics and how we might compare charities – I've seen many attempts at this as various people in the UK have tried to implement a version of GuideStar. Work by Tuckman and Chang on financial ratios in charities would help you too.
- The important point – on which I think we could agree – is that charity accounts (and come to that, the SORP) aren't a great way to compare charities – because they have never been intended to be used for that purpose. If you don't believe me, ask somone like Professor Gareth Morgan, a charity accounting specialist, who has written a paper on what you can and cannot use accounts for:http://www.ingentaconnect.com/content/tpp/vsr/2011/00000002/00000002/art00005?crawler=true
- I'd again point you to NPC's Guide to Charity Financial Analaysis, which states:
  - ***Audited accounts are, however, an imperfect tool for reviewing a charity's performance.*** *A quirk to current accounting regulation means that grants are entered the year they are received, rather than the year the work is done, unless there is a performance-related condition attached to the grant. For instance, if NPC (year end 30 June) receives an upfront grant for six months of research on 1 June, it will appear in that year's accounts, when the bulk of the actual work will be undertaken the following year (ie, 1 July onwards). NPC assesses its own performance as work is done, not as income is received and this is reflected in the management accounts. Similarly, Place2Be receives a large amount of its annual income towards the end of the financial year for work which will be carried out in the following year. This is recorded as income on the SOFA although the work has not be done and offset by creating a creditor5 on the balance sheet.*
- **If you really want to assess the efficiency or performance of a charity, you need the management accounts.**

In conclusion

I would happily share my frustrations with you regarding charity accounting rules and the SORP, but if we agree on the need for better reporting and transparency to support analysis, then surely we must agree that analysis based on a misunderstanding of charity accounting rules and the wrong metrics will further set back a cause we seem to agree on?

There are many people who share my view, who are independent of mind with no constituency to which they are bound, that could highlight better ways to hold our sector to account. Once again, I would implore you to talk to those in the field who have worked with charity accounts so that you can do that which you intend and in doing so, protect and enhance you and your foundation's reputation.

Best wishes

Karl

From: Gina Miller | TFF <gina@trueandfairfoundation.com>
Date: Friday, 4 December 2015 16:57
To: Karl Wilding <Karl.Wilding@ncvo.org.uk>
Cc: Jacqueline Parker | TFF <jacqueline@trueandfairfoundation.com>, Arabella Shewry <Arabella.Shewry@ncvo.org.uk>
Subject: RE: A Hornet's Nest - a request

Dear Mr Wilding,

I acknowledge safe receipt of your email which I read with interest.

While I appreciate your role is to represent and protect the interests of charities in the UK, I do not find your observations persuasive.

Putting to one-side the fact that you do not provide any examples of the factual errors you claim, your email does not address the fundamental issue which is that the data relied upon is already in the public domain, whether via the Charity Commission (CC) or from the individual charities' own accounts themselves.

The only differences between the data in the Report and that published by the CC or the charities themselves is where we have had to correct factual errors reported by the one or both of the CC and the charity concerned.

The Report draws together publicly available information about the performance of charities in respect of the matrix of percentage spend on charitable activities as against total income. It is perfectly legitimate to call for charities to achieve a 65% level and it does not follow at all that charities are bound to be required to reduce expenditure on income-generating activities to achieve such a level of charitable activities spend.

However, I would agree that one consequence should mean that charities examine how effective are their income-generating activities. Equally, your 'total incoming resources' argument is limited in reality, especially for the larger charities which feature in the Report where the apparent effect of sizeable gifts is negated by gifts being an annual occurrence and not merely being one-offs. It is worth noting that our Report makes some allowance for such receipts in any event by averaging the figures out over a three year period.

It is a perfectly legitmate exercise to highlight the present level of under-performance of many charities and in this respect, I am pleased to see we are in agreement about the need for greater transparency and scrutiny.

The irony here is, of course, that the information upon which reliance is placed is already in the public domain, albeit without a light being shone on it.

I look forward to the public debate and the greater scrutiny of the performance of charities to ensure that their objects are more closely met by increased funds being spent on their charitable activities.

Yours sincerely

Gina Miller

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From: Karl Wilding [mailto:Karl.Wilding@ncvo.org.uk]
Sent: Thursday, December 03, 2015 4:20 PM
To: Gina Miller | TFF <gina@trueandfairfoundation.com>
Cc: Jacqueline Parker | TFF <jacqueline@trueandfairfoundation.com>; Arabella Shewry <Arabella.Shewry@ncvo.org.uk>
Subject: A Hornet's Nest - a request
Importance: High

Dear Ms Miller
I am the director of public policy at the National Council for Voluntary Organisations (NCVO), which represents charities.
I have had sight of your forthcoming publication 'A Hornet's Nest', and I am writing to urge you not to publish this report as it stands.

The report contains serious errors – both factual errors and errors of interpretation – and as such I would suggest that you are likely to suffer significant reputational damage as a result of its publication.

It will also have the effect of creating myths about charities that are unwarranted and untrue.

I make these observations on that basis of having analysed thousands of sets of charity accounts over a 20-year period at NCVO, where I run the country's leading charity data research team. We digitise and analyse 10,000 charity accounts each year and as such have developed substantial expertise in these matters.

Your suggestion that there is something wrong with charities spending below a certain proportion of their income on charitable expenditure makes no sense. I fear you have made the mistake of thinking that spending on other categories is some form of waste. In fact, spending on other categories typically relates to things like the costs of trading, which generates more in additional income for charities than it costs them in expenditure.

The report shows no awareness that charity accounts report their 'total incoming resources'. This number is not comparable with the income figure you might find in a corporate profit and loss account. The 'total incoming resources' figure includes income such as, for example, gifts intended for permanent endowment, to be spent in perpetuity. In this case, while these have to be reported in the year that they are received it is legally impossible to spend the income received in the same year.

Your proposal of an arbitrary 65% minimum on charitable expenditure would in the case of many charities mean that they ended up with less money to spend on the causes they work for, as they would have to reduce their expenditure on income-generating activities. It would prevent charities from making investments in buildings, or from saving to do so. I am sure that none of this is what you would want, but it would be the consequence of such a target. For a private-sector parallel, I doubt an equity analyst would berate M&S for returning insufficient profits to shareholders because they had spent some of their income on the cost of goods.
Your major claim, that there are hundreds of charities spending a low proportion of their income on charitable expenditure, is wrong.

I would like to draw your attention to recent, thorough research from the Charity Commission on precisely this topic, which can be found online here:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/459134/amr_low_charitable_expenditure.pdf

You will see that they scrutinised the accounts of charities with reported charitable expenditure below 10% of income. You will see that nearly all charities reporting charitable expenditure under 10% of income had either made accounting or transcription errors, or had reasonable explanations. For example, they may have purchased a building for their use, something which would be listed as capital expenditure rather than current charitable expenditure. Charity accounting rules – internationally defined – are clearly not helpful here, but any charity accountant would be able to explain these important accounting treatments to your report writer.
There are quite a number of further factual errors in your report which I will not detail at length here.

We are not opposed to more scrutiny of charities – indeed, I have written and published more about greater transparency and scrutiny than most – but this report's flaws mean that it contributes nothing to public understanding of charities. I am happy to meet and discuss with you how these errors might be addressed and to show you our data.

I wish to conclude by again stating that this report is so flawed that it constitutes a reputational risk to anyone associated with publishing it. To be clear, should you not be willing to correct your publication, we would be failing in our duty as NCVO if we did not stand up for charities faced with such misleading and ill-informed criticism. Our members would expect us to make clear and public its significant shortcomings.

I would be grateful if you would acknowledge receipt of this letter, and advise me of your proposed action as a matter of urgency.
I am available to speak at any point. My contact details are below:

Mobile: 0795 137 3511.

Regards,

Karl

Karl Wilding
Director of Public Policy
National Council for Voluntary Organisations

NCVO is a registered charity, number 225922
You can find me on Twitter and LinkedIn or via my Blog