The True and Fair Foundation report 'A Hornet's Nest: A Review of Charitable Spending by UK Charities'

Cass Centre for Charity Effectiveness responds

There are two charities. Charity A spends £1000 and raises £5000. Charity B spends £1m and raises £2m. Which one now has the opportunity to do most good?

Charity A now spends all of its £4000 on charity work. Charity B spends £750,000 of its £1m and saves £250,000 towards future work. Which one has the better policy for the future?

They are easy questions to answer for you and me, but not it seems for the 'True and Fair' Foundation or the newspapers that covered its report ('A Hornet's Nest: A Review of Charitable Spending by UK Charities').

Whilst both organisations are undertaking the same work and are identical in all respects, the True and Fair Foundation would say that Charity A is more than twice as efficient as B because it only spends 20% of its income on 'non charitable' activities, whereas B spends 50%. A is also a better charity because it spends 100% of its income on its work, whereas B spends only 75%.

For the True and Fair Foundation, percentages matter and all other considerations appear to be totally irrelevant. This way of thinking would lead to charities spending next to nothing on fund raising, not indulging in trading activities and spending everything they bring in.

If charities took this advice, there would be no charity shops, no charity Christmas cards and, very quickly, no charities, as they would all have gone bust. In the fantasy world of the True and Fair Foundation, Kid's Company would emerge as a brilliant success story as, over the last four years of its existence, it averaged a 90% spend ratio on True and Fair's formula (http://www.dailymail.co.uk/news/article-3357458/One-five-UK-s-biggest-charities-spending-half-public-donations-good-causes-spend-little-ONE-CENT-charitable-work.html.)

Some have called the report 'flawed' or 'misleading'. We would suggest that a better description would be: worthless and designed to appeal to those who have been undermining large charities for the last year, who believe that all charities should be small and run by unpaid volunteers.

Benchmarking is a useful tool, when used appropriately and with real thought and understanding. However, in this situation, that hasn't occurred. In fact, had the report been an undergraduate essay on the subject of charity finance, it would have failed.

The report includes no details about the research team, "who possess accounting and investment research and analysis experience." Clearly their expertise does not extend into charity finance and accounting, as there seems to be no knowledge of the principles of fund accounting - the correlated accounting principle linked to trust law, which underpins the UK Charity Accounting Standard, regarded as the world's gold standard in nonprofit accounting.

In the absence of shareholders and the bottom line, the charity accounting SORP was originally formatted in 1995 to provide an accountability and transparency to charity accounting and its latest 2015 format accords with International Accounting Standards.

The report also fails to understand that different organisations have different levels of overheads at various phases of their growth or, that as US Charity Defender Dan Pallotta stresses, surely as a sector we should be focused on the impact charities make, rather than the low overheads they might have?

Reviewing the report in more detail, we note the following:

- The language used and the inferences made go much further than the financial and fund raising points they illustrate, leading readers to conclude that some of our best and most trusted charities are appallingly mismanaged.

  On page 3 it is stated: 'The True and Fair Foundation believes that the bad apples within the charitable sector are often characterised by a lack of proper governance and ethical conduct, transparency and accountability, as well as low conversion of income into charitable expenditure.' As the report criticises a number of charities (including the RNLI, Marie Curie and Cancer Research UK) the reader can only infer that these charities are, in the eyes of the True and Fair Foundation, not properly governed and unethical.

- One piece of analysis is that, (page 4) 'In almost every other field, one would expect a larger organisation to have lower overheads than a smaller organisation.' The authors probably mean a smaller *proportion* of their overall expenditure on overheads but the phrasing is indicative of the care with which this report has been compiled.

The overall conclusion is (page 6): 'The fact that any charity is allowed to spend less than 50%, let alone less than 10%, on their charitable activities is a scandal… it is a travesty that they are not required to spend a significant percentage of their income on their charitable endeavours to keep these various tax advantages.' Let's turn to some of examples of this 'scandal' and 'travesty.'

The report begins by critiquing the Lloyd's Register Foundation – the charitable 'arm' of Lloyd's Register Group – stating that only 1.3% of its income was spent on charitable activities. This is a complete misrepresentation of this charity's structure.

Here, we have a company that is wholly owned by a charity whose profits are devoted to charitable activity. In the last year for example it committed £9 million of grants for nanotechnology research and education and made a £10m grant to the Alan Turing Institute, the UK's national institute for data science. Like *any* company, the majority of its finances are devoted to running the company and a small proportion is profit. In the case of Lloyd's Register, the profits go to charity rather than to private shareholders. This is all clearly explained in the first few pages of its annual accounts which the True and Fair Foundation claims to have studied in detail. Any operating company owned by a charity would show the same 'anomaly'. The implication of True and Fair's 'critique' is that companies should not be owned by charities and that this practice should be ended immediately.

The next case is Sheffield City Trust, a charity set up to operate many of the sports and leisure facilities, previously managed by Sheffield City Council. The report claims (page 2) that: 'It is the view of the True and Fair Foundation that as the State continues to shrink, the charity sector will become even more important to society.'

Over the years, many previously publically operated facilities including sport and leisure, libraries, inland waterways and others have become charities. This has enabled significant savings on the public purse and often led to improved qualities of service and public involvement.

Most of the expenditure of Sheffield City Trust is the cost of running the sports and leisure facilities it operates. It is a large and complex *business* with a charitable purpose and, again, the details of this are explained within its accounts. Any organisation of this kind will inevitably have a low 'ratio' on True and Fair's formula as its main purpose is providing a public service for which most people pay. This is not appreciated in the report and were the True and Fair 'ratio' implemented, it would make such organisations unviable.

The Royal National Lifeboat Institution (RNLI) is also criticised on two counts. Firstly because it has a pension deficit. We fail to grasp why this point is relevant when virtually every long-standing organisation private, public or charity has a pension deficit.

The other criticism is that (page 9): 'The RNLI employs 1,170 on lifeboats, lifeguards and rescue but 503 in support, governance, fundraising, merchandising and other trading.' The implication is that 30% of the staff are unproductive in doing things that have no connection with the charity's work.

The RNLI is one of the best-known organisations in the country whose method of working is understood by the majority of the British public. But not, it seems, by the True and Fair Foundation. The vast majority of RNLI workers are part-time volunteers, 4,600 of them in lifeboats and a further 3,000 as shore crew and station management. On this correctly calculated basis, just *five* per cent of the RNLI's staff is engaged in governance and fund raising.

Next in the firing line is Marie Curie (page 10) which scandalously 'employs 3,164 staff in hospices and nursing, compared to 1,179 in fundraising, publicity, shops and support. The number in fundraising alone is 441.' Just how does the True and Fair Foundation expect Marie Curie to raise the money needed to allow it to employ its 3,164 'charitable' staff? Does the money simply roll in through the door by osmosis? No. If you analyse the accounts instead, you can identify that each person engaged in fundraising raises (on average) their own wage costs and those of 2.7 or 7.2 nurses (depending which figure is utilised).

The same 'logic' is at work in relation to Cancer Research UK. The first suggestion is that those working in fundraising are grossly overpaid. The report says (page 11): 'we were surprised by the numbers employed within fundraising, as well as some of the salary levels' and then gives a table of those in Cancer Research UK who earn above £60,000.

The uninitiated reader could be forgiven for thinking that this is a list of the earnings of those who work within fundraising when it is, of course, a list of all employees in the organisation who earn above this figure. This is not simply sloppy layout, but an indication of the report's flawed research design and the manipulation of figures to support its perspective.

Cancer Research UK employs some of the top medical experts in their field in the world and they are paid significantly *less* than they could receive in many other organisations. In reality, a typical job in its fundraising department such as a Marketing Executive, attracts a salary of c. £25,000 a year, less than the UK average wage of £26,500.

The report notes the number of people who work in fundraising for Cancer Research as 2,000 with the suggestion that this is somehow exorbitant and unwarranted. On the very next page it states the charity's fundraising income as £522m.

Even if we assumed that a fundraiser's direct employment costs are on average £50K a year (and we have seen from the Marketing Executive's salary that many earn much less) this would cost the charity £100m a year and demonstrates that, on average, each person raises five times their cost to the charity. Whilst to the True and Fair Foundation this clearly represents a 'bad deal', to everyone else it is common sense.

Let us take this argument a little further. The True and Fair Foundation claims on its website that 100% of any donation you make to them will be spent on charitable activities. It's a claim many charities make and probably most donors support. But is it sensible? Let us say you have £50,000 to give to Cancer Research UK. If you stipulate that it must be spent on frontline services then Cancer Research has £50,000 to do that. If instead you don't make that stipulation and Cancer Research employs 'yet another' fundraiser and that person raises the average of five times their salary, the charity now has £250,000 for frontline services. Isn't that better for their beneficiaries? It just shows that 'obvious' facts are anything but.

There are many more examples of misunderstanding and poor analysis within the report.

In summary, it is very easy to present facts and figures in a way which gives a wholly misleading and unfair impression.

For example, what would you think about a charity that:

- Contrary to Charity Commission and other guidance that all charities should have at least three trustees only has two, and they are husband and wife.
- In a recent year submitted its accounts to the Commission 107 days late.
- In the same year spent only 11% of its income on charitable expenditure.
- Even more recently doubled its expenditure on staff and salaries in a year when income dropped by more than 75%.
- In 2013 spent more on the costs of generating income than on charitable activities.

I'm sure you don't need two guesses as to which charity this is - the True and Fair Foundation.

All of these points (with the possible exception of the first two) might have occurred with good reason, but they emphasise how 'facts' could be misconstrued.

We also find it difficult to reconcile the production of this report from the charity, the True and Fair Foundation, whose stated charitable objects on the Charity Commission website are[i]:

1. For general charitable purposes and to assist in such ways as the charity trustees think fit any charity or project whose aims include the advancement of education and/or the relief of financial hardship, sickness and/or poor health and/or the promotion of sustainable development for the benefit of the public by the relief of poverty and/or the improvement of the conditions of life in socially and economically disadvantaged communities. In this paragraph sustainable development means 'development which meets the needs of the present without compromising the ability of future generations to meet their own needs'.

2. To promote for the benefit of the public the conservation, protection and improvement of the physical and natural environment.

The True and Fair Foundation have informed us that the charitable objects of the Foundation have been changed to those contained in their most recent annual report which read as follows:

'The charity's main objective is to support small charities and individuals by providing funding and practical support to enable them to meet their own objectives. Miller Philanthropy has achieved this through the funding of non-profit making activities, projects and individuals that have the passion and solutions to positively effect change amongst the ailing sectors of society and the environment.'[ii]

In our opinion these charitable objects would appear to be even more restrictive than those published on the Charity Commission website.

The Charity Commission often questions a charity over whether it has misused charitable funds for political purposes or has strayed away from its charitable mission.

In 2016, the Charity Commission may wish to ask the True and Fair Foundation the same question, as this report would appear to be outside its charitable objects (whichever version you apply).

This response has been compiled by the senior staff team of the Centre for Charity Effectiveness, a group of academics and professional practitioners researching and engaging with the charity sector.

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Comment for Press

Following the publication of its response to the True and Fair Foundation's report, the Cass Centre for Charity Effectiveness received, in January 2016, a legal complaint from solicitors acting for the Foundation and its trustees Gina and Alan Miller. The response was removed in order to consider their complaint and to take legal advice.

It has now been re-published with one or two minor amendments.

The Cass Centre for Charity Effectiveness believes it is essential for academics and others to be able to express their views on matters of public interest without fear of being sued for libel. It welcomes responses to its output and always considers them but believes that such responses should seek to further any debate rather than shut it down. It hopes that the True and Fair Foundation's trustees will themselves engage in public debate with Cass, rather than spending money instructing lawyers to do so.

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Notes to Editors:

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[i] True and Fair Foundation Charitable Objects on Charity Commission website http://apps.charitycommission.gov.uk/Showcharity/RegisterOfCharities/CharityFramework.aspx?RegisteredCharityNumber=1133001&SubsidiaryNumber=0. Accessed on 14 December 2015 and re-accessed on 24 February 2016.
[ii] These are stated on the Charity Commission website, but as the True and Fair Foundation's Activities.