

# WHAT MAKES A GOOD CHARITY?

## NPC's guide to charity analysis

### Selected points

#### Introduction

- 1 This guide is for anyone interested in helping charities become better.
- 2 For any grant under £5,000, avoid using the charity's time unless you can genuinely add value. For a grant of £50,000 it is sensible to ask questions and to meet people to ensure the charity can manage the grant well.
- 3 Funders can obtain information in various ways:
  - (1) Use publicly available information eg Charity Commission.
  - (2) Request information from the charity.
  - (3) Meet with key people at the charity.
  - (4) Talk to people who have used the charity.
  - (5) Visit a project and talk to front-line staff or volunteers.
- 4 A good charity will be effective in four key areas:
  - (1) **Purpose**
  - (2) **Impact practice**
  - (3) **People**
  - (4) **Finance and operations**

#### **Purpose**

- 1 The starting point when looking at any charity is to understand how it wants to change the world.
- 2 A theory of change can be a helpful way to plan how to create change. A good theory of change:
  - (1) Is clear about who the organisation aims to reach, their needs, characteristics and the wider context.
  - (2) Is informed by academic theory and research.
  - (3) Will have been co-created, with input from across the organisation.

(4) Gives people confidence that the charity understands what it is trying to achieve and how it will do this.

3 Ambitious charities look to achieve long-term change and tackle root causes rather than simply treating symptoms.

4 Most charities face a choice between working at scale or working in depth. Scale is not necessarily a sign of success and we are wary of organisations seeking growth for its own sake.

## **Impact Practice**

1 The best charities are driven by the impact they achieve.

2 There are three questions a charity should be asking:

(1) Is it doing the right thing?

(2) Is it doing it well?

(3) Is there a better way of doing it?

## **People**

1 People – staff, volunteers, trustees – make a charity what it is.

2 The best leadership teams take care to strengthen the organisation by developing leadership among staff or volunteers, and create an environment in which people can (and want to) give their best.

## **Finance and Operations**

1 Money is a means to an end, but it matters: financial security and sustainability allow charities to focus on their mission.

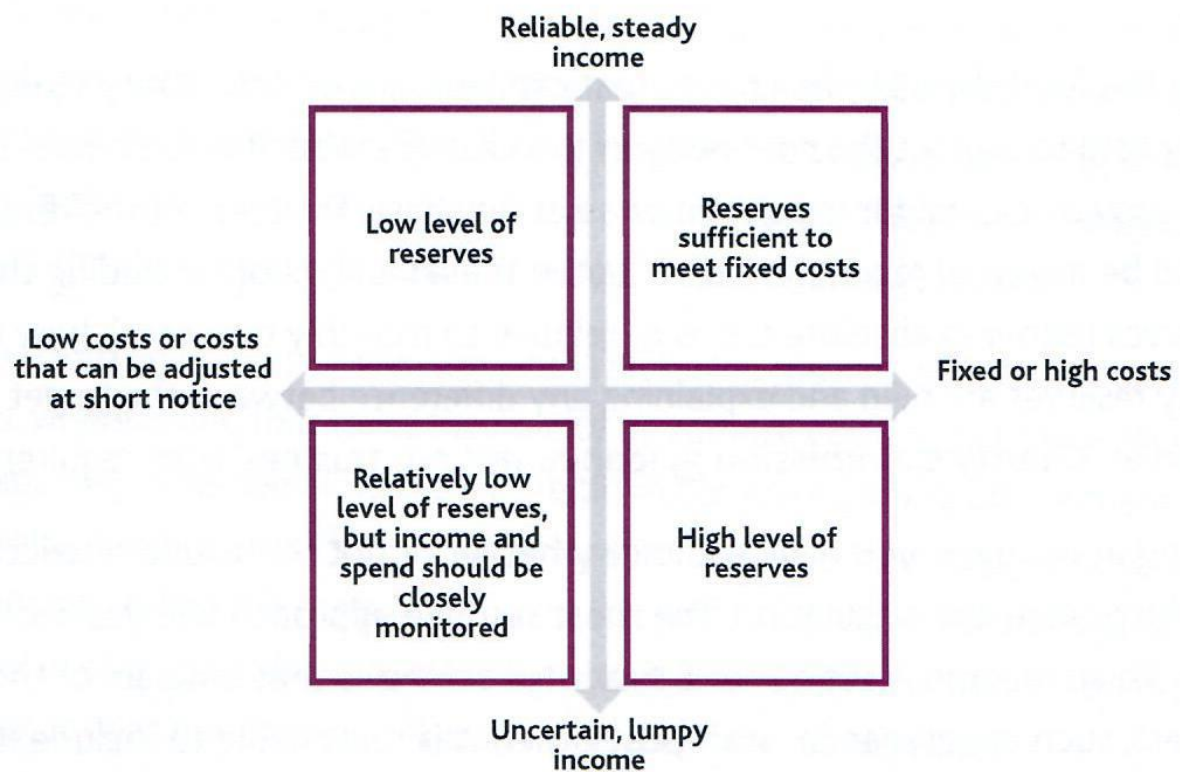
2 Charities are simultaneously expected to build up reserves and to spend as much as possible on delivering activities.

3 Just as important as checking the backwards track record is looking forward: relying only on annual accounts to assess a charity's financial sustainability is akin to driving using only your rear-view mirror.

4 It is sensible for charities to avoid over-reliance on a single source of income and to have a plan for dealing with those sources most at risk.

5 We used to say that three to six months of monthly expenses were sufficient to have in reserve for the efficient running of an organisation, and anything more was inefficient. In a period of low growth, and depending on the charity's activities and vulnerability of the beneficiaries, a case can be made for more generous reserve-holding policies.

6 A useful grid for analysing a charity's reserves requirement:



7 Consider the organisation's outlook – is it a sustainable model?

8 We would expect the chief executive to have a good understanding of the finances and be able to answer questions competently.

9 All trustees need some financial literacy and an understanding of their financial and general responsibilities.

10 Given the availability of accounting packages, we would expect most charities to be able to produce timely management information.

## Purpose Questions

- 1 Does the charity have a clear purpose and approach, based on evidence about the issue it seeks to address?
- 2 Does it understand its own role and how it relates to others?
- 3 Is it best placed to do what it does? Has it reviewed the possibilities of partnership, collaboration and merger?
- 4 Is it looking to solve problems or treat symptoms?
- 5 Ask to see the strategy document. How often is it reviewed? Does the charity respond to lessons learned?
- 6 Do people at all levels understand the strategy? Do the views of staff and people using the charity influence strategy and service development?
- 7 Do activities reflect the strategy? Do they contribute to the charity's goal, and are there sensible links between them?
- 8 Is the charity able to adapt its approach in response to changing circumstances?
- 9 What do the results show and are they improving over time? Are others doing the work better?
- 10 How do the results compare with what the charity expects to achieve? Are expectations sufficiently ambitious?

## Impact Practice Questions

- 1 How does the charity use results to improve performance?
- 2 Has the charity learned from results, including mistakes, and adapted services or strategy accordingly?
- 3 Does the charity compare results over time?
- 4 How do results compare with others in the sector? Has it attempted to benchmark itself against others?
- 5 Does the organisation know how many people it reaches and who it reaches?
- 6 Can the charity make an informed estimate of the difference it makes?
- 7 Does the charity understand the full impact it is making?
- 8 Can the charity spot if anything is going wrong?
- 9 What is the evidence behind the charity's activities? Is it credible?
- 10 Is the charity honest about whether it is achieving the results it hoped to?

## People Questions

- 1 Does the management team bring a range of perspectives and experience? What have they achieved in post or, if new, what did they achieve at previous organisations?
- 2 Where do the chief executive and chair see the organisation in three years' time? Are they 'on the same page'?
- 3 How vulnerable is the charity to a change of chief executive or other personnel?
- 4 If you are able to visit sites and talk to staff and volunteers, are staff motivated and positive about what they do? Do they share the vision and enthusiasm of the top team?
- 5 How engaged is the chair? How much do they add, and how do they support the chief executive? How do the chair and chief executive interact?
- 6 Is there a good mix of skills in the trustee board? What level of engagement is there by the trustees?
- 7 Has the board identified potential risks to the organisation and ways to mitigate them?
- 8 What sort of culture does the management team want to foster, and how do they try to influence this?
- 9 Is the management's description of the organisation and its culture consistent with how staff and beneficiaries see it?
- 10 Do the values they claim match behaviour you witness?

## **Finance and Operations Questions**

- 1 Is the charity living within its means? Is it possible to know this from the information available?
- 2 How secure is its income, how visible and how diverse? Has the charity anticipated the main risks to its income?
- 3 Can we tell where the money goes? Does the balance of spending reflect the charity's strategy and stated priorities?
- 4 Does the charity have enough cash and an appropriate level of reserves?
- 5 Are the accounts published in good time and without qualification?
- 6 Is management information provided regularly? Do members of the management team and board understand it?
- 7 Do budgets and projections look realistic?
- 8 Are good processes and controls in place for managing money, assets and liabilities, and for preventing fraud?
- 9 If relevant to the charity, have there been any safeguarding incidents in the past year and how were they handled?
- 10 Is the charity making full use of all its assets?