Third Sector Hypocrisy:

Are Large UK Charitable Funders Really Interested in Systems Change?

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An Investigation Into Large UK Funders Working In the Arts and Creative Sector

Overview

The UK's third sector is one of the largest in the world, with an array of different organisations that operate on a non-profit basis and share a stated interest in tackling various kinds of disadvantages. Behind these organisations are a group of large funders[1] who collectively distribute a total of around £1.8 billion each year. Many of these organisations claim to have a focus on tackling structural or systemic disadvantages, such as the treatment and opportunities available to certain minority groups, or even broader things like income inequality. They are almost universally taken at their word, but a closer analysis of how they distribute their funding and their own organisational structure raises serious questions. Do these large funders have a real interest in addressing structural change? Or could they, instead, perpetuate inequalities and disadvantages, perhaps without even realising it? In the wake of several interactions with large funders, we drew together data going back 12 months and further analysed the situation.

What we discovered[2]

- Of the UK's top 20 charitable funders, 19 have offices in London.
- 78% of funders have CEO salaries of over £100k.
- 100% of funders are paying their top staff tier over £65,000.
- 68% of the funds awarded by the largest 10 funders were directed towards London-based organisations.
- 84% of money from the top 10 funders support organisations staffed by people with similar ethnic backgrounds as them, with no mention of lived experience of a disadvantage.
- Over 75% of funding given by the largest funders goes towards organisations with no stated climate change policy of any kind, whether in terms of reducing their emissions or other things.

[1] In this sample we have counted: Esmee Fairbairn, Paul Hamlyn Foundation, Barrow Cadbury Trust, Wellcome Trust, Leverhulme Trust, Comic Relief, Westminster Foundation, Gatsby Charitable Foundation, Lloyd's Register Foundation, Monument Trust, Grace Trust, Henry Smith Charity, Arts Council England, NESTA, Wolfson Foundation, Sigrid Rausing Trust, Arcadia, Goldman Sachs, UK Community Foundations and Foyle Foundation.

[2] Data collated from the Charities Commission, annual reports of the charitable funders, and information from their funded organisations.

- Approximately 90% of the top 10 funders' staff share similar backgrounds as the personnel in the organisations they are supporting.

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The first thing that arises from this data is the way most large UK funders are based in London: an area that represents less than 11% of the total UK population, and with high levels of income inequality, along with living costs. Operating from the UK's capital costs, on average, three times more than from other UK cities[3]. If funders want to ensure as much of their money as possible goes towards charitable work, being based in London seems like an unnecessary expenditure. Moreover, with so much funding being awarded to fellow London-based organisations, it compounds the issue of disproportionate support within a small geographic area. With the vast majority of disadvantaged people in the UK living outside of London, such distribution of funds does not reflect the wider population's needs.

The plush inner London offices of the Paul Hamlyn Foundation.

[3] Nic Redfern, "The Best Cities to Start a Business in the UK": https://www.nerdwallet.com/uk/business/best-uk-cities-start-business/. "How Much Does It Cost To Rent Office Space In The UK?" https://www.instantoffices.com/blog/flexible-workspace/cost-rent-office-space-uk/

The issue of pay

High CEO pay for charities has long been recognised as deterring donations. The general public understands, on a basic level, that money being given to charity should go towards helping people in need, rather than being lavished on staff within that charity. Many arguments have been put forth to justify the high pay of charity CEOs – ranging from a need to 'attract the best talent' to being competitive with other industries. In the words of Joan Gary: "*Nonprofits exist in a free market. They need to be competitive in order to attract the best talent.*"[4]

Such arguments could be refuted by observing how small charities, who mostly rely upon volunteers rather than paid staff, have been able to create effective social impact for a wide range of communities. In a study by the Institute for Voluntary Action Research, it was noted:-

> "(...) this is because of their focus and expertise and sometimes because of how being small enables them to work. We have seen that they can influence change, from individual to government level. They can work alongside practitioners to influence their work, provide evidence to support a campaign, bring the voices of people with direct experience to the fore"[5].

Such organisations do so without a need to pay anyone over £65,000 a year. Furthermore, implying that high salaries are necessary to 'attract the best talent', seems to be dismissive of the inherent worth and potential of each person, if they are afforded a fair chance and access to opportunities. To try and emulate the pay structures of industries in the private sector may be regarded as misguided, considering these same structures have no interest in addressing social disadvantages and creating positive change – often being responsible for creating structural inequalities themselves.

In many cases we found that the CEO salaries of charitable funders exceeded 1/20th of the income that organisation was receiving, and fell above ten times what was bein paid to the lowest tier of staff. This was even the case amongst funders that claimed to be trying to address 'structural inequalities in society'[6]. The question arises: how can such funders be truly committed to structural change, when their own structures harbour such glaring inequalities?

[4] Joan Gary, "Is It OK For Nonprofit Leaders to Make Big Salaries?" https://blog.joangarry.com/nonprofit-salaries/.

[5] "Our Learning", *Small charities and social change*, https://www.ivar.org.uk/social-change/.

[6] Paul Hamlyn Foundation, https://www.phf.org.uk/about-phf/#paul-hamlyn-foundation; Esmee Fairbairn Foundation, https://esmeefairbairn.org.uk/our-aims/.

Distribution of funds

All the top 10 funders analysed seem to follow the same funding model: directing the bulk of their money (84%) towards organisations whose characteristics are very close to their own. Not only was there a similar internal structure, comprising paid staff teams exceeding ten people and high salaries above £65,000 for those at the top, but there were also close correlations with ethnicity (White British backgrounds) and lack of lived experience. Although these latter factors were hardest to determine, and further research should be undertaken, our assessment from the data is that most money from charitable funders was given to organisations that are staffed by people who are White European, aged over 35, and with no stated lived experience of disadvantage – whether that be disability, experience of severe social exclusion, or other characteristics.

This is important for a number of reasons. Firstly, organisations staffed by people who are more privileged than their beneficiaries will find it harder to deliver work that is genuinely relevant and impactful. By being different than those they claim to help, a divide arises that also makes engagement and participation difficult. To overcome this barrier, organisations often 'hire in' external facilitators, project coordinators and consultants. However, those are more often temporary staff members, who will have little influence on how an organisation is structured and its core operations.

The importance of having staff with lived experience of the same disadvantages faced by beneficiaries has gained wider acknowledgement, but it appears the largest funders have problems putting it into practice. One of the reasons might be their recruitment process described by the National Council for Voluntary Organisations:-

> "[Volunteer] roles are not always advertised openly but instead are often recruited through personal networks or word of mouth, which increases the likelihood of attracting the same type of people and leads to boards that lack diversity."[7]

Not only do these same funders profess to value lived experience, they also place an emphasis on work that is delivered in partnership, collaboration, and consultation with communities. It may be that funded organisations are able to achieve such aims, but their staff makeup makes this much harder. As noted by Sarah Braham:

[7] "Leadership", *Time Well Spent: Diversity and Volunteering*, https://publications.ncvo.org.uk/time-well-spent-diversity-and-volunteering/6-what-are-key-issues-and-learnings/#63-leadership

"I was a peer researcher, interviewing women who had experienced abuse and faced other issues, such as homelessness and substance use. I found that the women I interviewed opened up and felt more relaxed talking about their own life experiences because they knew I had been through it too. They also saw that there was hope for them when they saw how I had turned my life around."[8]

With funded organisations also having very similar internal structures to the large funders – both in terms of pay structure and the characteristics of staff – an appearance of bias arises. It is well known that we are more predisposed to empathise with those we share something in common, even on a subconscious level, than with those who are 'other.' Funders, when considering their bias, should factor in racial background, class, and experience of disadvantage. If not, the distribution of money by the largest funders risks cementing inequalities, rather than dismantling them.

'Establishment' links?

Aside from being based in London, we found that many of the largest funders seemed to have close ties with 'the Establishment,' which is to say that they often work alongside government funded agencies and organisations, with many of their trustees also coming from industries like investment banking, business management and corporate law[9]. Large charities are also more likely to receive government funds, compared to smaller charities, whose funding is originated mostly in individuals as posted by Lisa Hornung about NVCO's investigation: "larger organisations receive a smaller proportion of their income from individuals but a higher proportion from government."[10]

Given the large funders' top-down staff structures and high executive pay – which needs to be approved by trustees – perhaps this is not surprising. Likewise, people from these privileged backgrounds and with links to central government are arguably the least likely

[8] Sonia Braham, "Don't underestimate the value of lived experience", https://www.thirdsector.co.uk/sonia-braham-dont-underestimate-value-lived-experience/management/article/1524328

[9] Notable examples: Garfield Weston, whose trustees mostly consist of investment bankers and corporate lawyers; Arts Council England, whose CEO is appointed by a Government minister and which receives funding from the Government (uncut, even in the 2008 recession); Paul Hamlyn Foundation and others, which work 'in partnership' with Arts Council England and a range of government-linked authorities.

[10] Lisa Hornung, "Funding trends differ for small charities", https://blogs.ncvo.org.uk/2019/01/21/small-charities-key-findings-from-our-data/

to see the value in lived experience of disadvantage. Similarly, it is hard to picture them being genuinely interested in structural change – when such change, if taken to its logical conclusion, would threaten their own positions among 'the 1%.'

Collaboration, cooperation and sharing

Another professed value shared between the largest funders is the role of collaboration, cooperation and sharing. Organisations are much more effective when working together, they say, with a joined up approach that allows for 'bottom up' sharing and cooperation. However, as with many other statements, our experience with how funded organisations actually operate is a little different.

Across a period of 12 months, we have routinely contacted organisations supported by the largest funders, with a variety of open proposals about helping to widen their social impact, join in with their work and engage their beneficiaries with linked projects. Such correspondence has never been demanding, having always expressed open interest and support for the work they conduct. In all this time, only 23% responded with any degree of interest. The majority, in fact, did not even respond at all.

To further look into this, we asked volunteers to contact a randomised group of the same organisations, posing as people that these organisations profess to be supporting. The response rate in this case was higher, but still fell far short of what should be the case: 54% responded within two weeks, with a further 21% responding over a longer time period. This meant 25% of these organisations – often in receipt of funding that exceeded six figure sums – did not respond at all.[11]

So, not only is there a sizable proportion of funded organisations supported by the largest funders who are seemingly totally uninterested in collaboration, but an appreciable percentage appear to be doing minimal to no work with the people they claim to be supporting. We followed this up with some funders[12] and in each case a policy of 'non-interference' was articulated. That is to say, unless evidence of criminal conduct is provided, funders do not look into the operations of organisations they fund, excluding when the initial funding decision is made and a self-assessment conducted by the organisations themselves when the money is used up. Is this because funders believe their funding decisions are infallible, or do they actually not really care about the work undertaken by organisations in their 'portfolio'?

[11] Data pooled between 47 separate organisations, involving 11 volunteers.

[12] Arts Council England; Paul Hamlyn Foundation; Garfield Weston.

This attitude is opposite to the intensive application process implemented by the top funders that organisations must go through at the beginning, often involving writing tens of thousands of words that cover technical funding terminology. Such a process automatically hands advantage to large organisations that can afford to outsource work to specialist fundraising consultants – a practice known about but not condemned, by either the Charities Commission or the funders themselves. The lack of real checks after this funding is awarded means that an organisation can effectively bring in an external consultant, make tokenistic efforts to demonstrate some social impact from the money, whilst actually spending the bulk on its own internal structure and staff pay.

The social inequalities condemned by some large funders seem to be present within their own structures

Climate change

In analysing a set of organisations given money by the top 20 funders[13], we found that over three quarters (77%) have no stated climate change policy of any kind, whether in terms of reducing their emissions or other things. Looking deeper, we found that the funders who stated some kind of commitment to tackling climate change actually had no measurable impact of this. Despite efforts to encourage cultural funders to adopt an integrated approach that takes into account climate change, such as the Funder Commitment on Climate Change ('FCCC') run by the Association of Charitable Funders[14], there was very little evidence of it being implemented. Even the signatory members of the FCCC continued to distribute the bulk of their funding to organisations without any kind of climate action plan, let alone doing any measurable work to tackle climate change. Those funders who responded to our enquiries about this matter failed to say why their funding decisions did not reflect their membership of the FCCC which they had signed

[13] 64 organisations from funders in footnote 1

[14] https://www.acf.org.uk/downloads/The_Funder_Commitment_on_Climate_Change.pdf

up to, other than indicating a general strategy for future large grants[15]. When contacting the Association of Charitable Funders about this issue, no response was given. Such 'greenwashing', of course, is a well-documented phenomenon across multiple sectors. As noted by Kate Abnett[16]:

> 'Looking into "green" claims, mostly by online stores and also some traders' websites in November 2020, the European Commission and national authorities found the problem was rife.'

It would appear the philanthropic sector is no less permeable to this, with funders 'commitments' to climate change being shallow at best. Such failure to truly account for climate change in their decision making – treating it as an extraneous, separate issue – is symptomatic of their compartmentalised thinking. Even though the environment is interconnecting across all social spheres, and despite the creative and cultural sector having huge potential in engaging people, funders push it aside.

The existential threat of climate change does not recognise the artificial social divisions we choose to create. All systems, from small to large, rest on the platform of the environment. The creative and cultural sector is no different. Where will art, literature and entertainment be with rising sea levels, frequent extreme weather events, and mounting threats to global governance? All these things are predicted by scientists with even the most positive of climate models. By ignoring the science and impacts on the most disadvantaged, funders are at risk of inadvertently exacerbating the problem. Organisations that operate without any real recognition of the climate emergency play a part in hiding it, by conveying a false image that it does not matter, that life can continue as normal, or that it doesn't even exist. In the words of the United Nations Secretary-General:-

> 'Climate change is the defining issue of our time – and we are at a defining moment. We face a direct existential threat. Climate change is moving faster than we are – and its speed has provoked a sonic boom SOS across our world. If we do not change course by 2020, we risk missing the point where we can avoid runaway climate change, with disastrous consequences for people and all the natural systems that sustain us.'[17]

[15] Paul Hamlyn Foundation, Esmee Fairbairn Foundation, Barrow Cadbury Foundation

[16] https://www.reuters.com/article/us-eu-environment-greenwashing/greenwashing-is-rampant-in-online-stores-consumer-authorities-find-idUSKBN29X1Y6

[17] https://www.un.org/sg/en/content/sg/statement/2018-09-10/secretary-generals-remarks-climate-change-delivered

The efforts required to tackle this emergency are greater than that of the WW2 mobilisation[18] – a far cry from the present approach of the largest funders, even those few who profess to be interested in tackling climate change and are signatories to things like Funder Commitment on Climate Change.

Do the large funders really care about change?

Considering the structure of these large funders' organisations and where they put the vast majority of their money, the question emerges: *Are they really interested in making lasting, structural change? Or could their actual aim be the very opposite?*

Let us imagine if they achieved their stated objectives. First of all, their need would swiftly evaporate. Their many staff on large salaries would suddenly find themselves jobless. The money they control would have nowhere to go. They would, in essence, be made redundant.

Then there is 'the giant effect.' This is when an organisation grows so big that its own needs begin to outweigh those it set out to support. It may start off committed to a cause, perhaps spear-headed by an individual(s) or founding trustees. However, over the years, commitment to this cause gradually gets diluted. As more people come on board, the organisation begins to operate more to sustain itself rather than help those outside it. And as more money is raised, it becomes integrated with the underlying wealth structures that perpetrate and rely upon social inequalities.

On a wider basis, there are a great many 'trusts' with millions in assets that seem to be nothing more than tax efficiency schemes for their wealthy founders. This matter has been discussed elsewhere[19] and it is something the Charity Commission is aware of but taking no action over, perhaps unsurprisingly, considering the influential connections of so many behind these trusts.

Of course, we cannot sweepingly discount the true intentions of all large UK funders, but nor can the disturbing findings outlined in this article be overlooked. It certainly seems that many funders have no real interest in structural change (perhaps, in some cases, without even knowing it).

By spreading their considerable wealth to like-minded organisations, it makes it all the more harder for those genuinely committed to create long-term change. It is a bit like

[18]https://theconversation.com/to-fight-climate-change-science-must-be-mobilised-like-it-was-in-world-war-ii-125258
[19] David Ainsworth, "Wealthy are giving to 'charities that do very little charitable work,' PM's spokesman says": https://www.thirdsector.co.uk/wealthy-giving-charities-little-charitable-work-pms-spokesman-says/finance/article/1126283

flooding a hall with noise, when a minority are trying to make some music. And, on a wider basis, people lose hope in initiatives that expound promising messages, becoming ever more disillusioned and apathetic. That too could be seen to serve 'the 1%', who fear nothing more than an empowered mass movement of the general public.

The consequences of this are far reaching. It means that real grassroots organisations rooted in lived experience of disadvantage and with a commitment to structural change need to find other ways to sustain their work. Like the beneficiaries they work with, it is a matter of fighting and persevering for progress.

Our recommendations

Based upon our findings, it appears relatively simple to create a more equitable and impactful funding sector by making a few small changes. If large UK funders are genuinely interested in creating long-term structural change and ensuring maximum social impact from their stated charitable objectives, they can consider the following 5 steps:

1. Ensure funding decision makers come from a wide range of backgrounds, including lived experience of the issues which are sought to be addressed.

2. Ensure the highest pay grade does not exceed ten times that of the lowest.

3. CEO pay (for all third sector organisations) should not exceed £65,000 - the average salary for the highest levels in most professions[20] - including all bonuses. The money thus liberated can go towards funding more organisations with fair and inclusive decisions.

4. Undertake fair, randomised checks of awarded funds, in order to ensure it is being used for the purposes it was granted.

5. Reassess funding given to large organisations who insist on paying salaries exceeding £65,000 and with minimal representation amongst their staff and management boards with characteristics shared by their beneficiaries.

6. Climate change should be fully recognised for the proven existential threat it presents for society as a whole. All funding decisions, regardless of the sector, should take into account what work an organisation is doing to tackle climate change. Funders themselves should have comprehensive strategies in place to reduce their own CO2 emissions.

[20] Dusty Baxter-Wright, "The average salary (UK) for 102 different jobs", https://www.cosmopolitan.com/uk/worklife/careers/a33179/average-job-salaries-uk/

Sources

1. Office of National Statistics
2. Charities Commission
3. Companies House
4. Individual organisation websites and annual reports (42 sampled)
5. Arts Council England

Editorial note: *All effort was made in contacting organisations mentioned so they could provide fair comment. Most organisations declined to comment. We would welcome input from other small organisations, particular those representative of people from diverse and disadvantaged backgrounds, in their experience of large funders.*