the wheel

**Stronger Charities.
Stronger Communities.**

CLASSIFICATION OF REGISTERED CHARITIES

The Wheel's Submission to the consultation held by the Charities Regulator,
March 2022

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About The Wheel

The Wheel is Ireland's national association of community and voluntary organisations, charities and social enterprises. We are the representative body for this vibrant and diverse sector and, together with our members, we shape and promote conditions in which people and their communities thrive.

We passionately believe that community and voluntary action improves and enriches communities and society. Our simple but ambitious mission is to make Ireland a fair and just place for all by strengthening the capacity and capability of community and voluntary organisations, charities and social enterprises to play their part.

We do this by representing these organisations, supporting these organisations to do their work, and promoting the importance of the voluntarism and community values that power these organisations.

The Wheel has 2,000 members and provides support services and representation on behalf of its members relating to matters that reflect their collective interests.

The Community and Voluntary Sector in Ireland

Independent, community-based, voluntary organisations have long played a key role in supporting and advocating with and for people and communities in Ireland. Indeed it is often through the initiative and advocacy of self-organising communities that many community, health and social care services have been initiated.

Community and voluntary organisations are involved in every community in the country, providing health and social supports, services and advocacy on behalf of people with disabilities, older people, young people, children, people experiencing poverty and disadvantage, and people at every stage of the lifecycle.

Over the two years, the COVID-19 pandemic has demonstrated the extent to which we rely on the community and voluntary sector, especially in difficult times. These organisations played a key part in sustaining communities during the crisis, demonstrating their core role as part of Ireland's public service infrastructure. They restructured services to deliver remotely, responded to the need for socially-distanced and safe provision, cut costs, redirected resources to priority areas and designed new service responses targeted at meeting emergent need.

The community and voluntary sector constitutes a significant social economy within the broader economy. It comprises 32,841 community, voluntary and charitable organisations, involves over 86,481 volunteer directors and trustees, directly employs 165,000 people, and manages income of €14.2bn per year.

These organisations raise over half of this income (more than €8.3bn) themselves, majorly subsidising the cost of public services in Ireland. Indecon Economic Consultants (in a report published by the Charities Regulator in 2018) estimate that the total direct, indirect, and induced value of the work of Ireland's charities exceed €24bn per annum and support 289,000 employees.

Focus of this submission

This submission will focus on assessing the benefits of the Charities Regulator's proposed model for developing a charities classification system for Ireland. In addition to completing the Regulator's online survey, we see a value in noting some further points for consideration that relate to the wider context of charity typologies, both in Ireland and beyond. We would like to reiterate some of the points we made in our first submission during the stakeholder consultation in November 2021 as well as making several additional points.

In summary, The Wheel recommends:

- Building on the data that already exists on charity classification in Ireland to ensure that the Regulator's resources are used most efficiently
- Ensuring cohesion with existing typologies across Government which relate to charities – most notably, the system currently being developed by the Department of Rural and Community Development for social enterprises
- Classifying charities by the theme of their work rather than their economic activity
- Ensuring that international comparability is possible
- Allowing charities to change their classification to reflect and changed purpose in their work
- Building in mechanisms for ongoing review of the classification system by those whose activity it seeks to capture.

Building on Existing Research

The Wheel acknowledges the value in the Regulator's stated aim to develop a 'single authoritative source' for charity classification in Ireland that is truly 'fit for purpose'. The production of high-quality research into the charity sector in Ireland has value for The Wheel's member organisations and those they support. Understanding the sector in a detailed way is crucial to measuring and analysing outcomes and in achieving effective governance.

We also recognize that the Charities Regulator has undertaken a thorough systematic review of existing classification models. We would encourage the Regulator to take this approach further and fully utilize the high quality data already in existence in Ireland, most notably the wealth of information and analysis available from [Benefacts](#).

The Charities Regulator plays an important role in ensuring the ongoing health of the sector and we believe that building on existing classification systems and data would ensure the most efficient use of its resources. This extends to ongoing consultation with the charity sector itself to ensure that any classification system put in place incorporates existing research. We recommend:

- Building on the classification systems, data sets and analysis of the Irish charity sector already in existence
- Implementing ongoing consultation and review mechanisms with the charity sector and relevant external organisations to capture and incorporate data being produced elsewhere.

Ensuring Cohesion with Typologies Across Government

Ensuring cohesion between the Regulator's proposed charity classification system and other typologies that exist or are currently being developed within Government is important in ensuring consistency and a 'joined-up' approach. One key example of this is the classification exercise for social enterprises in Ireland currently being undertaken by the Department of Rural and Community Development (DRCD) as part of the implementation plan for their *National Social Enterprise Policy for Ireland 2019–2022*. This exercise will impact many charities who engage in social enterprise activities as part of their work.

We recommend consulting with all Government departments to ensure that the classification categories make sense at a national level and are coherent with those already in use. Many Government departments fund charities and categorise them in certain ways already. While international comparability at primary level is important, the secondary-level categories should be more nuanced and capture Ireland's specific setting. The categorisations should also be closely integrated with the work of the Central Statistics Office (CSO) in order to facilitate valuable future analysis and research. This is especially valuable due to the recent loss to the sector of Benefacts.

The Wheel recommends:

- Ensuring coherence with the typology produced by DRCD to prevent confusion for organisations in the charity sector who might also engage in social enterprise activities

- Consultation with Government departments and the CSO to ensure coherence at secondary categorization level.
- Ensuring that no additional administrative burden is placed on charities, many of whom are already required to report to multiple state bodies with minimal resources.

Classification by Theme of Work not Economic Activity

The Wheel strongly recommends that 'Classification should be based on the activities and operations of the charity as set out in the main objects of the charity's governing document'. This point is crucial, and central to the development of a classification system that really captures the value and complexity of the charity sector in Ireland.

In our ongoing engagement with DRCD on the development of social enterprise-related policy, The Wheel has sought to demonstrate the nuance around the issue of 'earned income' and economic activity for charities. Many of The Wheel's members function as social enterprises, but are defined by the nature of the work that they do in communities, not the way in which they fund these activities.

Many organisations have mixed funding sources (state funding, earned income, philanthropic donations etc.) and might see a significant difference in the balance of their income sources year by year. The pandemic provides a clear example of this, as myriad charities suffered huge shortfalls in their earned income. This was demonstrated in applications from the sector for the Employment Wage Subsidy Scheme (EWSS) and the Stability Fund for Charities (provided to the sector in 2020 by the Department of Rural and Community Development). The investment of over €55m (€45m in 2020 and €10m in 2021) was vital to the 600 charities that benefitted and all successful applicants showed a 25% collapse in income. The Wheel recommends that:

- Classification should be based on the activities and operations of the charity as set out in the main objects of the charity's governing document.

International Comparability

The Regulator acknowledges that many charity classification systems exist around the world and that the development of any new typology in Ireland will need to be a '"good fit" with that used elsewhere' in order to allow for 'more direct comparisons and analyses between Irish registered charities'. While we agree that domestic comparability is vital, the facilitation of international comparison would also be highly valuable both to the sector and the state. The Wheel recommends:

- Ensuring that any new classification system still facilitates international comparison through the most widely adopted classification system: the [International Classification System of Non-Profit Organisations](#) developed by the John Hopkins Comparative Sector Nonprofit Project
- Continuing to assess the classification project in an international context – looking to best practice and developments in other places.

Beyond Standard Typologies

While the [International Classification System of Non-Profit Organisations](#) remains the most ubiquitous classification system for international comparison between charity sectors, there have been recent attempts to harness new technologies in the production of more nuanced and responsive classification systems. We recommend that these types of collaborative projects be considered by the regulator when developing its classification system.

An example of this is the *[UK Charity Activity Tags](#)* – a project to classify every UK registered charity using two classification taxonomies. The project was a collaboration between [NCVO Research](#), Dr Christopher Damm at the Centre for Regional Economic and Social Research (Sheffield Hallam University) and David Kane, an independent freelance researcher, and was funded by Esmée Fairbairn Foundation. Its stated aim is to go beyond the limited catch-all categories used by the Charities Commission (UK regulator) to capture the nuance and breadth of the work charities do.

'To achieve this, a sample of registered charities was created and manually classified by the project team. This sample was then used as the base for both machine-learning models and rules-based classification to assign ICNP/TSO categories and UK-CAT tags to each charity. In some cases, particularly for larger organisations, manual categories are applied to ensure the categories are correct.' The aim is that the data across different organisations can be used to produce informative infographics/visualisations etc. and it is less restricting than the comparative categories of the ICNP.

This projects demonstrates a desire within the sector in the UK to go beyond data produced by the regulator in order to truly capture the work that they do. It also reflects a development in technology since the ICNP model was developed and enables the production of engaging visual data and complex cross-analysis between countries and sectors. The Wheel recommends:

- Engagement by the Regulator in sector-led projects such as this, which reflect developments in technology and research
- Ongoing engagement with the sector on issues of classification beyond this initial categorization, recognizing that typologies are not static but must reflect the changing nature of the entities they categorize.

Flexibility and Ongoing Consultation with Charities

The Wheel believes that the self-classification element of the Regulator's proposed classification system is a positive, as charities are best placed describe the core tenets of their own work. This also reflects best practice in terms of engagement and communication between the Regulator and the sector.

In relation to question 9 of the Regulator's survey, however, we see value in allowing flexibility for organisations to change their classification status without approval by the Regulator. Community and voluntary organisations are best placed to assess the core principles of their own activity and to update their classification accordingly. While this is unlikely to happen frequently, the adaptability and flexibility of the sector is one of its greatest assets and this must be reflected in any classification system developed by the Regulator. Again, this was most clearly demonstrated during the COVID-19 crisis, when many organisations rearranged or adapted their services and supports to address new and urgent need in the community. The Wheel recommends:

- Allowing charities to update their classification information without Regulator approval
- A mechanism for ongoing review of classification categories by the sector.

Conclusion

The Wheel recognizes the value in developing a comprehensive classification system for charities in Ireland. We support the idea of self-classification by charities and also acknowledge the systematic review of different typologies carried out by the Regulator. We would urge the Regulator, however, to build on the extensive work that has already been done in this area over many years. We would also stress the importance of ensuring that any new system facilitates national and international comparisons, and reflects recent developments in technology and research. In addition, a joined-up-Government approach must be taken to ensure that charities are not required to self-classify across myriad state typologies.

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