

BRITISH BROADCASTING CORPORATION

RADIO 4

TRANSCRIPT OF "FILE ON 4" – "CHARITIES"

CURRENT AFFAIRS GROUP

TRANSMISSION: Tuesday 9th November 2010 2000 - 2040

REPEAT: Sunday 14th November 2010 1700 - 1740

REPORTER: Gerry Northam

PRODUCER: Sally Chesworth

EDITOR: David Ross

PROGRAMME NUMBER: 10VQ4861LHO

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NORTHAM: Tonight, the Big Society, the Prime Minister’s plan to reform public services. There’s to be a greater role for charities and they’re gearing up in hope of winning huge contracts. But as some big national names reshape their organisations, a grassroots rebellion is underway.

FOWLER: The way I put it is, the heart’s gone out of it. People felt very committed, there was strong local feeling and now that’s gone and people are feeling lost, demoralised and sidelined.

NORTHAM: And as charities become more central to Government spending, File On 4 has learned that cuts to the regulator, the Charity Commission for England and Wales, may lead to some fraud going unchecked.

YOUNGER: One of the possibilities that we’re going to have to look at is saying that we can’t possibly investigate absolutely every allegation that comes our way. I mean, there are 180,000 charities. We may have to put the bar quite high on what we do investigate.

NORTHAM: As charities gear up for new responsibilities, we report this week on perils they may face if the Prime Minister’s vision is realised.

SIGNATURE TUNE

ACTUALITY AT ACTION ON DEMENTIA

CURRY: My wife went into care eight years ago, a memorable and an awful day. My direct involvement in her care now is to visit her twice a day to feed her. I know she recognises me, I get the odd smile every now and again. Without knowing the cause

NORTHAM: It's a Thursday morning and a hundred people have gathered to launch a new voluntary organisation - Action on Dementia Sunderland. Many present are caring for a loved one who has drifted into steep decline. The Treasurer, Wilf Curry, has been caring for his wife Dora over thirteen gruelling years.

CURRY: Both verbal and physical aggression became commonplace. Things being thrown all around the house and regular assaults on me. She used to headbutt the wall and cupboard doors, she used to punch her body and her face and slap her face. Now I can only assume this was utter frustration ...

NORTHAM: Even at its inauguration, the new group is controversial. Wilf and his colleagues are rebels. They've broken away from the central Alzheimer's Society to set up as rivals.

THOMPSON: In order to be able to promote the interests of people in Sunderland, it's essential to maintain a strong local and independent voice and to have local accountability. I think I can now declare Action on Dementia Sunderland well and truly launched, thank you. [APPLAUSE]

NORTHAM: The new group, under its chairman, Ernie Thompson, has been spurred into revolt by a reorganisation of the Alzheimer's Society in England, Wales and Northern Ireland. They feel that thousands of local volunteers have been marginalised.

THOMPSON: They didn't beat about the bush. What they intended to do was to merge all 236 branches into 49 localities and at the same time disband committees - committees were just going to be summarily dismissed. Most branches started

THOMPSON: In terms of the Big Society, which we are certainly led to believe is all about giving power back to local people, it seems to me that the Alzheimer's Society - and not just the Alzheimer's Society incidentally, I think there is a lot of these big charities going in the same direction - are going in exactly the opposite direction to what Big Society is supposed to be about anyway, and certainly what we would argue was what it should be about. You know, surely you're there by courtesy of your members and your supporters and they are the ones you should be accountable to at the end of the day and not people who is going to give you a fat contract if you keep your nose clean.

NORTHAM: The national headquarters of the Alzheimer's Society are in a bright modern office complex near the Tower of London, picturesquely placed between a marina of luxury yachts and the riverfront of the Thames. The Society's Director for External Affairs, Andrew Ketteringham, rejects the suggestion that its programme of reorganisation is in contradiction to David Cameron's emphasis on localism.

KETTERINGHAM: No, it's actually exactly the reverse. What we've done through our reorganisation is to make the local areas much stronger than they were in the past.

NORTHAM: But you've abolished 236 branch committees.

KETTERINGHAM: What we have done is to ensure that we are able to provide services across the whole of the country. We're doing that more effectively now with more people to more people with dementia than we ever have done before.

NORTHAM: But isn't the Big Society supposed to be about local volunteers organising themselves locally – in other words, exactly what the Alzheimer's Society did up until this year – not about centralising into a new structure which reinforces the centre?

KETTERINGHAM: No, that's exactly what we are doing. We're providing the local areas with more strength in order to be able to provide the level of services that people living with dementia need.

NORTHAM: How do you make them stronger by abolishing their committees?

KETTERINGHAM: Well, do you know there were lots of areas where there were no committees. What we have done ...

NORTHAM: But there were 236 that there were and you've abolished them all.

KETTERINGHAM: What we've done now is to enable people living with dementia across the whole of the country to be reached by the Alzheimer's Society

FOWLER: The way I put it is the heart's gone out of it. People felt very committed. There was strong local feeling and now that's gone and people are feeling lost, demoralised and sidelined.

NORTHAM: Dr Alan Fowler was formerly a senior officer of Hampshire County Council and a management consultant. He chaired the Winchester branch of the Alzheimer's Society for the past five years. He's left in protest too and prepared reports on aspects of the national reorganisation he regards as particularly damaging.

FOWLER: I'd been concerned actually the year before the reorganisation that the society was slowly increasing the number of senior managers and administrators across the board and particularly in head office. And so I did an analysis using the published annual accounts of a large number of charities of what the auditors would call 'support costs'. This is senior management, finance and legal and HR departments and so on. I looked at 23 in total, which were broadly comparable in the sense that they were national charities who were delivering services locally in various ways. I only took charities which were in the health and social care sector.

NORTHAM: And what did you find?

FOWLER: Well, of those 23, I found that the Alzheimer's Society was second highest in spending 13.9% of its expenditure on these back office costs.

NORTHAM: 13.9 pence in every pound that it spent?

FOWLER: Indeed yes. For the National Autistic Society the figure is around just over 5%, 5.1%. Cancer Research it's 9.2%. For Help the Aged it's 7%, it's that sort of area - under 10% in most cases.

NORTHAM: Your conclusion is what?

FOWLER: My conclusion is a fairly simple one, they're spending too much money on back office and I'm sure economies could be introduced.

NORTHAM: Dr Fowler sent his findings to the Alzheimer's Society's head office, where they've been examined by Andrew Ketteringham. He accepts that management costs amount to about 13% of the Society's budget, but argues that comparison with some other charities in Dr Fowler's study is unfair, because they don't carry the costs of providing extensive local services.

We're sitting here in very smart offices near the Tower of London. Somebody's paid for these and it's presumably come from collecting tins in places like Sunderland and Winchester.

KETTERINGHAM: Well, there are offices in central London, I'm not quite sure how smart they are and with a lot of people working in a relatively small area, so ...

NORTHAM: Overlooking the Thames at Tower Bridge?

KETTERINGHAM: We have a very nice view of Tower Bridge, but I have to say I don't get much of an opportunity to look at it.

NORTHAM: Do you need to have quite such plush offices and quite so many staff centrally?

KETTERINGHAM: The number of staff we have centrally I think in this office will be in the region of 150.

NORTHAM: That's a heck of a number.

KETTERINGHAM: It compares with over two thousand staff outside of this office, so it's a relatively small number. And it will also involve some of the support services that we provide for the two thousand members of staff and five thousand volunteers who are working for us every week of the year. Now if we can't provide those seven thousand people with a level of support that they need, then they can't provide the level of support that they have to give to people living with dementia.

NORTHAM: The Alzheimer's Society insists that most local activists have accepted its reforms and continue to work with it. While the impact of reorganisation is troubling some volunteers, what concerns many managers of charities is the future financing of public sector contracts. They worry that, while they might be about to get a bigger slice of the cake, the cake itself is shrinking rapidly under the Chancellor's cuts. And there's real anxiety among smaller groups that they may face severe financial pressure from the way public sector contracts are awarded.

ACTUALITY IN CROYDON

NORTHAM: In Croydon, to the south of London, one enterprising provider of services has just gone under. Dering Employment Services is being liquidated. It was set up five years ago by Stephen Dering, using his own savings, with the aim of helping other deaf people get into jobs. Its turnover was comparatively small - about £1.3 million. This summer it ran out of money while chasing payments from a large charity which specialises in employment support and works on huge contracts for the Government. For Stephen Dering, it's a sad end to a service for people who can find Job Centres difficult to negotiate.

DERING: We have supported over five hundred who have had a job or they've retained their job because of the work that we were putting in and we have supported two hundred and fifty into training.

NORTHAM: And what sort of jobs have you been able to get deaf people into?

DERING: A lot of retail jobs - Tesco, Marks & Spencer, Poundland. A lot of council admin jobs.

NORTHAM: Council admin?

DERING: Yes. Cleaning, driving, working in factories, a whole range.

NORTHAM: So you have made five hundred people employable who would not otherwise have been employable?

DERING: Yes, but what you also need to remember is that of those five hundred, most will have a family, perhaps they'll have children, so obviously that had an impact not just on the individual but on their family, their children.

NORTHAM: As a sub-contractor, Stephen Dering was dependent on timely payments from one prime contractor working with the Government - the Shaw Trust, the country's largest provider supporting people with disabilities into employment. It accounted for about half of Stephen Dering's annual business. He's told File On 4 that over the past two years he frequently had to chase up payments from the Shaw Trust which were overdue, sometimes many months – even, he says, as long as a year. The liquidator for his company showed us documents showing the amount owed by the Shaw Trust at £43,000. It's the biggest single item by far.

DERING: I have actually went, back in February of this year and handed over a thick pack of invoices, because we weren't getting paid and that was one example of how I have actually had to go from London to Birmingham to hand over in person the invoices and we still haven't been paid for those invoices.

NORTHAM: The Shaw Trust say that you have been slack in your invoicing and that there have been flaws in the paperwork and that this accounts for some of the delays that you are complaining about. Are you absolutely telling me that you have been rigorous in your invoicing?

DERING: Yes I am. We sent the invoices by paper and by email.

NORTHAM: You sent them by paper and by email?

DERING: Yes.

NORTHAM: Stephen Dering's complaint is not accepted by the Shaw Trust, which prides itself on running a vital national service with £100 million a year turnover. It also prides itself on dealing fairly with its subcontractors. It has just launched a new Government programme called Work Choice, in which it has enlisted fifty smaller organisations as its supply chain for a five year contract worth well over £200 million. The Chief Executive, Sally Burton, denies any responsibility for the demise of Dering Employment Services.

BURTON: We are very sympathetic to the situation that Stephen Dering finds himself in. Mr Dering isn't right though to say that we have made late payments consistently. We work for Government, and all our funding comes through Government in these employment contracts and it is very clear that we can only receive the payment when the evidence has been produced of the activity that's been undertaken and, critically, of the outcome for the customer. We'd have no reason whatsoever to avoid making payments that were legitimate claims to any of our subcontractors.

NORTHAM: You might have no reason, but he's saying it has happened. He says, for instance, that he has had to himself deliver copy invoices and evidence by taking a trip to Birmingham in order to put invoices in your hands.

BURTON: I am aware of a number of the things that Stephen Dering has said and we have had a very thorough internal review of our procedures and our policies to ensure that we are not disadvantaging any smaller organisations. There have been a few occasions where we have made payments a few days later than we would have liked to.

NORTHAM: Well he is not talking about a few days, he is talking about up to a year.

BURTON: We have been looking at our figures over the last week and we don't believe we owe £43,000 and we think our figure that may still be outstanding is somewhere more in the region of around £15,000.

NORTHAM: So you do accept that you owe him something, the question is how much?

BURTON: The money that is owed now could not be paid earlier because we hadn't got the evidence. We've been working or seeking to work through the liquidator to make those payments.

NORTHAM: While liquidation proceedings continue, we are unable to discover who is right in this disagreement. But we have learned that it illustrates a widespread problem of conflict between some of the other giant organisations which act as prime contractors of public services, and the host of smaller subcontractors who provide many of the services. The national body representing both sides in the jobs field is the British Association for Supported Employment. Its Chief Executive, Huw Davies, sees real hazards for small organisations taking on sub-contracts.

DAVIES: It is quite a risky venture at the moment. They are quite uncertain days as we see a changing market in provision of Welfare to Work services. Smaller charities are going to be tempted to bid for these contracts as a way of maintaining their staffing levels, keeping their involvement in supporting people. The question is whether it is going to be viable for them to be involved in these contracts. Our fear is there is a potential here that it may lead to market failure within the subcontractor market.

NORTHAM: And do you mean they may go out of business?

DAVIES: Absolutely they may go out of business.

NORTHAM: And your view is that it is up to the prime contractors to ensure that subcontractors are properly looked after?

DAVIES: We are concerned about the behaviour of one or two of the prime contractors around at the moment. There almost seems to be an attitude of take it or leave it, here are the contract terms - if you don't take it, somebody else will. Maybe almost a feeling that they have the power and the strength to be able to bully subcontractors into behaving the way they want and delivering what they want, and if they can't, just get rid of them, replace them.

NORTHAM: These concerns have been heard loud and clear in Whitehall. At the Cabinet Office, the Minister for Civil Society, Nick Hurd, has been meeting the leaders of voluntary organisations who have impressed on him the importance of mitigating the risks facing small charities which act as subcontractors.

HURD: It is a very real issue. The concern of the smaller organisation is, if you like, that very small crumbs fall off the table in their direction and they don't feel that they get adequate reward for some of the very difficult work they do, often dealing with the more difficult cases. And therefore our concern is, where the buyer on behalf of the state wants to deal with a large contract or consortia, we need to put in place guidance that makes it quite clear that economics need to be distributed fairly within the consortia.

NORTHAM: It would be an appalling consequence, wouldn't it, if what happened as a result of your policy was that a number of prime contractors did extremely well and a number of smaller charities were effectively driven out of business financially?

HURD: What you are describing has been too often the reality, that is what we are trying to correct. There will be situations where contracts need to remain on a large scale, but it is very important to us that within that there is real space for smaller organisations to add value and, if you like, the economics are distributed fairly.

NORTHAM: If charities are to take a more central role in providing public services, then two key questions will be whether they do the job well and whether they handle public money honestly. There's inevitable concern when either aspect goes wrong. How much worse then when both do, and a charity has been run both incompetently and dishonestly.

ACTUALITY AT ROCKVILLE HOUSE

JULIE: ... made a mess, Josie.

JOSIE: No, not at all, Julie.

NORTHAM: What have we got today?

JOSIE: It's roast beef with Yorkshire pudding, and then for sweet we've got strawberry gateau.

MAN: [Gagging noise]

NORTHAM: Does that sound good?

MAN: Yes.

JULIE: I'm going to help to do dishes afterwards.

NORTHAM: It's lunchtime at Rockville House, a small charity in Plymouth which provides concentrated day care for people with severe disabilities. The centre is a lifeline for disabled people and their families. Alongside its day care, it offers respite stays on a residential basis.

JULIE: All gooey ...

WHETTON: I will definitely go to Harry Potter with you ...

MAN: [Inaudible]

WHETTON: You're going to go and see Harry Potter?

JULIE: Yeah.

WHETTON: Yeah?

NORTHAM: The manager, Jo Whetton, has turned the organisation round, bringing her long experience of disability nursing to the provision of enlivening activities. Last year, Rockville House was a much less benign place. She found that the former trustees left vulnerable people at risk and stagnating.

WHETTON: I didn't realise quite how bad things were until I actually came in to the post. It is a bit like opening a can of worms, you never actually got to the bottom of it. There were people that had quite a hold on the organisation and the way it was managed and unfortunately in a very bad way. There was a lack of training, a lack of understanding, a lack of knowledge around what was safe practice, what was good practice. It was really at rock bottom.

NORTHAM: What did people here do most of the day then?

WHETTON: Sit, crayoning on a piece of paper, very little else really.

NORTHAM: Just passing time?

WHETTON: Just passing time, mind numbing time. A bit like sitting in front of a wall watching paint dry I should imagine.

NORTHAM: An official inspection in February 2009 by the Care Quality Commission gave Rockville House a zero star rating. The Commission's regional director, Ian Biggs, says that his inspector found seven serious breaches of regulations, including some that were downright dangerous.

BIGGS: Being rated a zero star rating is significant because it demonstrates that the service just isn't providing high quality or safe care for the people it's looking after. They didn't have proper records of medication, so they couldn't have a proper audit to account for all the medication that was in the home and those that were being prescribed and administered to the people that were coming in.

NORTHAM: That sounds pretty serious.

BIGGS: It is serious, It was clear that whilst there was a registered manager in place who was quite new, there was some difficulty in getting a real grip on the staff, because there was some day to day involvement of one of the trustees who didn't have a formal role in doing that and that became difficult in terms of the line management and accountability.

NORTHAM: The chair and Chief Executive?

BIGGS: As far as I understand, that's right.

NORTHAM: Last year Plymouth Council became so alarmed that it stopped new referrals. A second inspection in August last year again gave a zero star rating. And still the Chair of Trustees was interfering to over-rule the registered manager. The Care Quality Commission began to consider forcing Rockville House to close down. Matters then turned even worse. It emerged that the Chair of Trustees, who was also the Chief Executive, had been investigated by the police. She was Lady Veronica Haydon-Foster, and in July last year she acknowledged her guilt by accepting cautions on two counts of fraud. We have established that she claimed welfare benefits over many years for the care of a disabled dependent. According to the police, the total was £32,000. But this wasn't all spent on care. Lady Veronica's story was that she paid for home care provided by Rockville House. But, as Detective Constable Karen Stiven soon found, this wasn't true.

STIVEN: We were provided with invoices which had the chairperson's details on, including her home address, purporting to pay for the care of the dependent at home. But it became apparent when we inquired into those invoices that they were actually produced for other clients and then the chairperson's details were superimposed on those invoices to make it look as though she had actually paid for that care.

NORTHAM: So the invoices had been fiddled?

STIVEN: Yes.

NORTHAM: Faked?

STIVEN: Yes.

NORTHAM: And that is a fraud?

STIVEN: It is.

NORTHAM: File On 4 has learned that had the case gone to court, if convicted, Lady Veronica Haydon-Foster would likely have faced a prison sentence. It was concern for her disabled dependent which persuaded the CPS to offer her the two cautions. This summer, in a further twist, the Charity Commission reported that three years ago, Lady Veronica was also employed as Chief Executive, which was unauthorised. Intriguingly, the report says that payments to her didn't seem to go through the books in the normal way.

READER IN STUDIO: The chairperson received an annual income of £33,000 for work as the Chief Executive. This had been paid since the 1st September 2007. The Charity's annual accounts for years ending 31 March 2008 and 31 March 2009 did not declare any transactions related to the chairperson.

NORTHAM: A year ago, the Charity Commission put in a new Board of Trustees. Lady Veronica Haydon-Foster was replaced as chairperson and a month later left the post of Chief Executive. Our requests for an interview with her have gone unanswered. Rockville House today, its manager told us, is a very different world. But if fraud and mismanagement can bring a small local group almost to its knees, it can also damage some of the most prestigious charities in the country.

EXTRACT FROM SPEECH BY PRINCE CHARLES

PRINCE CHARLES: Now this is where orthodox practice can learn from complementary medicine. The West can learn from the East, new from old traditions, as part of an integrated approach to healing.

NORTHAM: At the World Health Assembly in 2006, Prince Charles restated his commitment to alternative therapies. It's what led him to set up The Prince's Foundation for Integrated Health in 1993. The foundation registered as a charity with the aim of encouraging a culture of wellbeing. All seemed to go as planned until Detective Inspector Lindsay Jarvis was called in.

JARVIS: It was early April of this year when the charity asked the Metropolitan Police to look into certain aspects of their finances. They hadn't had proper audited accounts submitted the previous year and they suspected wrongdoing.

NORTHAM: Inspector Jarvis is an experienced fraud investigator. It didn't take him long to work out what was going wrong at the Prince's Foundation for Integrated Health. George Gray, one of the senior officials, was on the fiddle.

JARVIS: The then finance director appeared to have been siphoning off funds and putting through accounts that were either controlled by himself or appeared to be controlled by himself and they were not being for the benefit of the charity. There were several sums, they were ranging from £12,000 to £20,000. At the final analysis it was over a quarter of a million pounds.

NORTHAM: What was he using this money for?

JARVIS: Purely lifestyle. It appears Mr Gray had debts way in excess of the £250,000 and effectively he was servicing regular bills, his mortgage, his credit cards, loans, HP finance on motor vehicles - really living a life that he couldn't afford.

NORTHAM: When George Gray came to trial in August, he pleaded guilty and got a three year prison sentence. The evidence against him was simply overwhelming. Nonetheless, according to Inspector Jarvis, he was able to get away with his fraud for more than a year before anyone in the Prince's charity started asking questions.

JARVIS: I am afraid it is all about governance. And if there are not procedures in place, checks whereby things are verified by more than one person, it can sometimes become so easy and these things become a matter of course - don't worry, I have paid that bill, and it is not a bill, it is a fraudulent payment. There was just not the governance in place to check on Mr Gray. Mr Gray was a very senior member within the Foundation for Integrated Health.

NORTHAM: The judge called this a deeply unsophisticated fraud, and from the way you have described it, that sounds almost like an understatement?

JARVIS: Indeed it was.

NORTHAM: Nobody was available for interview from the Prince's charities, and his Foundation for Integrated Health has now closed. The first indication of a problem with George Gray was his failure to file accounts on time, and in this he was far from alone. According to the Charity Commission for England and Wales, a quarter of charities file their accounts late and they have a combined income of £6 billion a year. Nobody knows how many charities are victims of fraud. Paul Huck, a forensic accountant working in the City of London, recently conducted a small survey for his Masters dissertation. He persuaded ten of the biggest names to open their books to him, and came up with an alarming conclusion.

HUCK: I would sit down with their head of internal audit or head of risk and just have a fairly relaxed conversation about how they approached fraud, how they managed it, what their internal policies and procedures were like, how they dealt with reports of fraud and how they encouraged people to report any suspicion of fraud.

NORTHAM: And of the ten, how many had suffered fraud in the previous twelve months?

HUCK: All ten.

NORTHAM: All of them?

HUCK: Every charity had suffered at least one, if not more than one, fraud in the last twelve months.

NORTHAM: Last year the Charity Commission had 450 cases of suspected fraud or financial mismanagement reported to it, which it regards as only a fraction of the real number. As for the amount of money involved, the Commission says:

READER IN STUDIO: The total value of the fraud and theft reported to us was £21 million. While this represents a relatively small proportion of the income of the entire charity sector (£53.4 billion) our view is that there is significant under-reporting in this area.

NORTHAM: But the Charity Commission's ability to deal with allegations of financial misconduct may be about to suffer a serious blow. It's currently working out how to cope with a 27% cut in funding decreed by the Chancellor last month. And Sam Younger, the Charity Commission's Chief Executive, can't say whether it will be possible to investigate future allegations of fraud properly.

YOUNGER: It's too early to answer that question definitively. Clearly with a cut of the size we're facing we need to look very hard at what our priorities are, and there will be a lot of competing priorities. Certainly for us, one of the possibilities that we're going to have to look at is saying that we can't possibly investigate absolutely every allegation that comes our way. I mean, there are 180,000 charities. That we may have to put the bar quite high on what we do investigate and say we will only investigate if a certain minimum amount of charitable funds is at risk.

NORTHAM: You can't be happy to be in this position. I mean, if there's a fraudster listening, it sounds like his birthday.

YOUNGER: Nobody's happy to have a third cut off of their budget and obviously it limits what you do. When there is an issue of fraud, for the Charity Commission the issue is what other regulatory questions it throws up. Are there questions of, for example, poor governance that has allowed the fraud to happen, and in the most extreme circumstances is the fraud such or the dangers of fraud such that we ought to be thinking of using our statutory powers, for example, to freeze bank accounts or to get rid of trustees.

NORTHAM: And you're seriously looking at the possibility of saying, we won't investigate all allegations of fraud, we'll only investigate those above a certain amount of money?

YOUNGER: That's got to be one of the options on the table.

NORTHAM: This would mean that investigating charity frauds below a new threshold would in future fall solely to the police, who are themselves facing huge cuts. So as the Government sees the role of charities growing, what sense would it make to the Minister, Nick Hurd, to see a cut in the ability of the regulator to keep them honest?

HURD: Most organisations in the public realm are looking at how they can do more with less and the Charity Commission is one of those. I know, having spoken to Sam Younger, the new Chief Executive, and he has placed this on record, he simply sees that as a challenge to bring in a new era at the Commission and focus really on what they do well and make it an organisation even smarter in terms of the way that they regulate. He has not said to me that there is a significant problem in that he is up for it.

NORTHAM: Well Sam Younger has said to us today that one of the options they are having to look at reluctantly is not investigating all allegations of fraud which reach them. He thinks they may have to introduce a financial threshold, which would be a gift for a fraudster, wouldn't it?

HURD: Well, I think we have to be clear about what type of fraud we are talking about. If you are talking about the Charity Commission's role in terms of protecting donors, I am quite confident, based on the conversations I have had with Sam, that they are able to manage that process of regulation effectively.

NORTHAM: So are you telling me that if the Charity Commission do decide, because of their budget cuts, that they will set a threshold, a financial threshold below which they simply will not investigate allegations of fraud that reach them, you are going to be happy about that?

HURD: No, I would want to discuss it with them, but they have not raised it with me yet, so I don't know the detail of their proposal. What I am saying is that Sam, in private to me and in terms of what I have seen of his public utterances, is saying that he thinks that even on a reduced budget the Charity Commission can continue to play a very effective role as a smart regulator.

NORTHAM: As charities move centre stage in national policy, one of David Cameron's first moves as Prime Minister was to invite their leaders to Number 10. It might seem as if a golden age is dawning. But as we've found, there are pitfalls. While reorganisation may win big contracts, it can also alienate some long serving volunteers. And financially there can be unquantified risks for charities – either in taking on public sector sub-contracts or in losses through fraud. At Sheffield Hallam University, the Professor of Charity Studies, Gareth Morgan, sees a time of ferment ahead.

MORGAN: I think we could see some really quite serious crisis at some point. I think we will see some consequences similar to what happened to the banking sector, where light regulation led to very serious difficulties. There will probably be some major serious issue affecting the charity sector and then maybe in three or four years' time governments will be holding up their hands and saying, 'We need much better, much more effective regulation.'

NORTHAM: And you're making a serious comparison with the crisis that affected the banking sector and what you think may well happen in the charity sector?

MORGAN: The total financial resources in the charity sector are not as large as the banking sector, but nevertheless I think there could be some very serious issue where a charity goes seriously wrong, or it could be a large number of smaller charities – fifty or sixty local charities all make some very serious mistake in the delivery of some service because they haven't got adequate funding and they haven't got adequate oversight to ensure they're using their funds in accordance with charity law. There will be a big risk of something serious happening in the charity sector which will cause real concern that the regulation was not more effective.

NORTHAM: One academic we've spoken to says the danger is that it's going to be like the banks. Lighter regulation, more money sloshing about, the scope for fraud and misbehaviour just becomes irresistible.

HURD: I think you are listening to quite a lot of alarmist opinion. Charities, most of the ones I deal with, are very serious about their business. The whole process of buying on behalf of the state is robust and serious. We are here to help the sector manage this process of transition, because what they do and their ability to support and mobilise people is at the heart of our Big Society vision.

SIGNATURE TUNE