haysmacintyre

INTERNATIONAL CHARITY FINANCIAL

Benchmarking Report 2019

Contents

Introduction

We are delighted to present haysmacintyre's second financial benchmarking report focusing on international charities.

The charity sector continues to face uncertain times and this is particularly relevant for international charities. Significant media attention, such as high profile safeguarding cases and the public's perception of the sector, combined with economic and political uncertainty, including Brexit, has created a difficult environment for many organisations within the sector. Whilst the external environment is challenging, there remains great need around the globe.

Our report, which builds upon and utilises the results from last year's benchmarking survey, again takes a broad look at the sector, and includes charities of different sizes and operating models. The sample includes 180 organisations with total income of £6.2bn, net assets of £2.1bn and more than 80,000 employees.

We have again considered in this report a selection of the areas which, in our experience, are most important in achieving good financial governance: risk; reserves; fundraising and the trustee board itself. In addition to the areas considered last year, we have expanded our research to encompass metrics such as the page length of the annual accounts and the way that key messages are presented, and support and governance costs.

We found that:

- The charities sampled disclosed an average of 3.6 principal risks within the annual report, an increase from 3.4 in 2018.
- The charities sampled held an average of 4.9 months' expenditure in cash and short term investments, which is unchanged since last year.
- The most commonly disclosed risks were again in relation to future funding, however, there was a significant increase in organisations disclosing safeguarding as a significant risk. The number of organisations disclosing risks in relation to safeguarding (28%) increased significantly from last year (8%), most likely because of media attention surrounding high profile safeguarding cases and therefore, increased awareness within the sector and an increased desire for open and transparent reporting in this area.
- The average cost of raising voluntary income has increased to 26.3% of the income raised (2018: 25.3%).
- On average, 88% of expenditure was on charitable activities. This is down from 89% in 2018.
- On average, 12% of total expenditure was related to support costs.

"We have again considered in this report a selection of the areas which, in our experience, are most important in achieving good financial governance: risk; reserves; fundraising and the trustee board itself."

For all the charities included in the research, preparation of the annual report and accounts is a statutory necessity. However, it also presents an opportunity to communicate with a variety of stakeholders, including potential funders. It is important that charities consider the intended purpose and audience of the annual report as this should drive the way that key messages are communicated. For many international charities, there will be multiple audiences and it is therefore important to consider the needs of each one and whether those needs are better met by other publications, such as an impact report. Within our research this year we have considered some of the ways in which the key messages are communicated, including the use of a chair's report (or equivalent) within the report and accounts.

We hope you will find the results of our work useful, both to inform debate and to help your individual organisation benchmark its own figures against similar organisations. Even more importantly, we hope this work will help to stimulate debate and support the adoption of best practice in the sector. We would welcome feedback on the contents of the report, as well as suggestions for areas to benchmark in the future.

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Methodology and overview

Our report analyses the accounts of a selection of the UK's international charities.

Our review incorporated 180 charitable organisations with an international focus. We focused on charities with income greater than £0.5m and where international operations are a significant element of the charity's activities.

The most recent accounts were obtained from the Charity Commission, or Companies House where appropriate (at July 2019). Those accounts cover periods ending between 31 December 2016 and 31 December 2018. The sample includes organisations with total income of £6.2bn, net assets of £2.1bn and more than 80,000 employees. All information has been taken from publicly available accounts and we have not sought to verify this information or supplement it with additional enquiries.

We have taken information disclosed at face value, but in certain instances where the information disclosed is not clear, we have made assumptions in analysing the data.

The charities included within the sample represent a range of organisations, deploying a variety of operating models. In the pages that follow we have distinguished charities based on size of organisation, but not the operating model.

For the purpose of analysis, we have categorised the entities included in the following income brackets: less than £2m (59); £2m to less than £10m (58); £10m to less than £50m (37); and £50m and over (26). Income is one measure of size and activity, and we have used this to group organisations, however, we acknowledge that it is not the only indicator of complexity.

Whilst on average income increased by 9% compared with the most recent set of accounts, over a third of organisations showed a decrease in income. Seventy three out of 180 organisations, amounting to 41% of the sample, had an overall deficit position for the year. This is a similar position compared with our 2018 research.

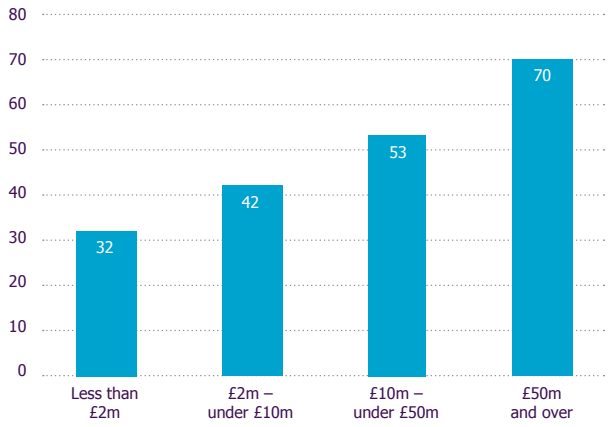
There will be many reasons for this, and a deficit should not always be a cause for concern – it may represent timing differences between income recognised and expenditure, or a conscious decision by a board of trustees to spend down reserves. However, these figures are indicative of the continued uncertainty that many organisations face in the sector and with the UK's impending exit from the European Union, this uncertainty is likely to continue for the foreseeable future.

The annual report

Charities use the annual report for a variety of purposes. Some charities view the annual report purely as a compliance document, whereas others consider the annual report as a communications tool to help raise funds or to communicate with members or other stakeholders. Reflecting the varied uses of annual accounts we see a variety of approaches taken to the annual report.

The number of pages of annual reports reviewed in our sample varied considerably. The shortest report was 16 pages in total (of which four were the trustees' report) and the longest was 126 pages (of which 81 was the trustees' report). The average report was 45 pages long, of which half (22.5 pages) was the trustees' report. Unsurprisingly, we found that the reports for larger charities were longer than the reports of smaller charities, ranging from an average of 32 pages for charities recording income below £2m to an average of 70 pages for charities recording an income of £50m and over.

Average number of pages in accounts



One way in which charities 'tell the story' of their work and plans in the annual report is by using a foreword from a named individual, such as the chair or chief executive. This enables a prominent statement to 'set the scene' before moving on to statutory matters later in the report. We found that half (90) of organisations in the sample had a chair's report and just under a third (51, or 28%) had a chief executive's report.

We noted that a handful of organisations included other introductory statements. These included a welcome from the vice chair, introductory statements of 'who we are' and a summary highlights page.

The annual report – questions to ask

1. What is the purpose of the annual accounts – are they purely for compliance, or are there wider purposes?
2. Who is the audience for the annual accounts?
3. What are the needs of each audience?
4. Within the confines of statutory requirements, can we meet the needs of each audience within the annual accounts or should we refer certain audiences to other publications?
5. What is the role of other complementary publications such as an annual review or impact report?

> Information should be understandable and accessible. Given the complex nature of the activities of some international charities, this can be a challenging area.

What makes a good annual report?

There is no one size fits all approach for a charity's annual report. The needs of one charity will vary considerably with those of another. It is also important to reflect that there may be multiple different audiences for the annual reports and that the needs of one audience may differ to another. In some cases, the needs of a particular audience may be better met with other documents, such as an impact report or summarised annual review.

Telling the story

The best reports are clear and 'tell the story' of the charity's objectives, its key achievements in the year and its principal plans for the future. This will often involve a clear link between what the charity planned to do, what it did and what it intends to do next year. It also involves a clear link between the narrative in the trustees' report and the figures presented in the back half of the accounts. In our view, the best disclosure on activities in the year is proportionate – it is not a long list of everything the charity has done, but the key highlights for users of the accounts.

Giving confidence to stakeholders

The disclosures in areas such as risk and reserves give confidence to stakeholders that the trustees and management of a charity have assessed the charity's operating environment and have put in place appropriate measures to mitigate risks. We have considered what makes a good reserves policy later in this report.

In our experience, a good risk disclosure is focused on those principal risks which are key to understanding the context faced by the charity. The disclosure will be specific enough to explain the risk faced by that charity. A generic disclosure may, for example, say that raising funds is a risk area, but a better disclosure might explain that dependence on a specific funder is a risk area. The best risk disclosures not only set out the risk, but also explain the steps the charity is taking to mitigate the risk.

Similarly, the disclosures which explain the governance structure and role of the trustee board within a charity can help to give confidence that the charity is well managed. Factors to consider include the composition of the trustee board, the use of committees, the induction of new trustees, the training of existing trustees and the way they are recruited.

The importance of balance

Some of the best annual reports are those which are balanced. They reflect that international charities work in difficult environments and that sometimes it is not possible to achieve everything the charity sets out to do. In some cases, this can link to the fundraising objectives of the annual report by explaining the work which the charity aims to do if there is sufficient funding to do so. Given that many charities find fundraising to be a challenging area, the annual report may discuss the priorities in this area and how the charity chooses to prioritise the use of its resources.

Clarity

Understandability is a key concept for the annual report. Information should be clear and accessible. Given the complex nature of the activities of some international charities, this can be a challenging area. In our experience, the narrative financial report is often key to interpreting the more technical parts of the report. In addition to text-based commentary, the use of charts and infographics can help to explain the figures and key events. The Charities Statement of Recommended Practice (SORP) requires that larger charities report on the "measures or indicators used to assess performance" and the provision of key performance indicators can also be a way of helping to interpret a charity's performance.

In our experience, there is a tendency to add to the annual report each year. New staff and trustees bring different perspectives and there are topical matters, which a charity may need to address. The result is sometimes that annual reports get longer and longer and that the key messages can be lost. Periodically, the information included in the annual report should be challenged critically to ensure it remains appropriate and proportionate.

There are often varied audiences for the annual report and critically assessing the content against the needs of each audience can be helpful in ensuring those needs are considered.

Risk

Managing risk effectively remains an area of significant importance for all trustees, including those of international charities, which often face a diverse range of risks. The external environment is fast-changing and there is significant external focus on risks, such as safeguarding. At the time of writing this report, the likely impact of Brexit remains a significant unknown.

The SORP requires that larger charities (defined as those with income of more than £0.5m) report their principal risks and uncertainties within the trustees' report. Reporting of principal risks and uncertainties can provide context of the environment faced by the charity and the actions taken to mitigate the risks identified. Within our research we considered those risks which, in our experience, are most relevant to charities operating overseas.

As in 2018, the most commonly reported risk was in relation to future funding and fundraising. Whilst these areas remained the most commonly reported risks, there was a decrease in the number of occasions this risk was reported (to 129 in 2019 from 145 in 2018). The proportion of organisations reporting one or more risk relating to future funding and sustainability reduced slightly, from 60% in 2018 to 58% in 2019.

We expressed some surprise in our 2018 report that a relatively small number of organisations reported risks in relation to safeguarding. In 2019, we found a significant increase. Safeguarding was reported as a principal risk on 52 occasions, significantly up from 2018 (15 occasions). Safeguarding was cited as a risk by 28% of organisations, up considerably from 8% in 2018. Given the continued media focus on this area, and wider awareness within the sector, this is unsurprising. In our experience, a number of organisations in the sector are considering the approach given to reporting on safeguarding within the annual report, including the information which would be most valuable to the charity's stakeholders.

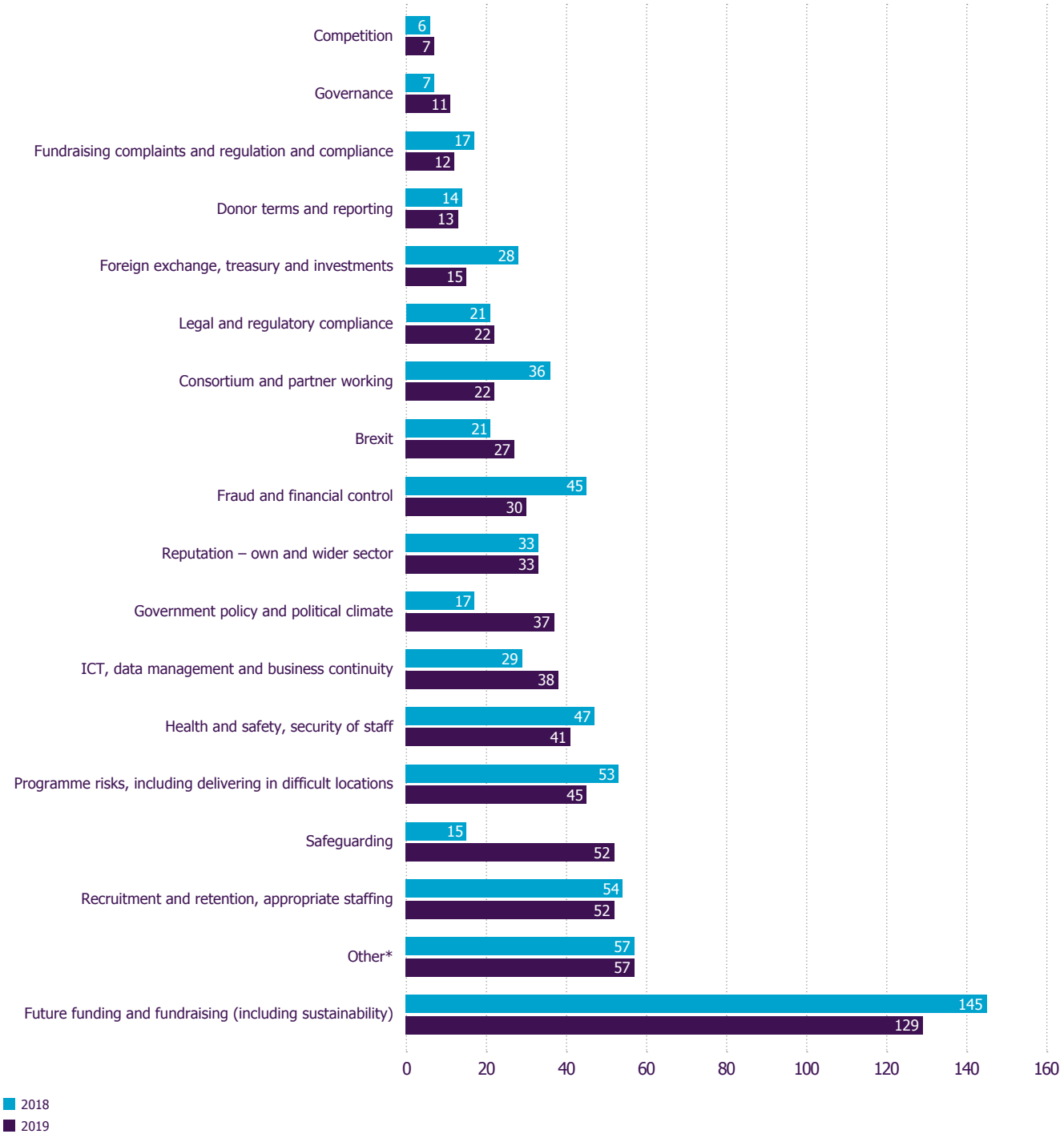
Perhaps more surprising is that Brexit was only reported as a risk on 27 occasions, representing a modest increase from 21 in 2018. We acknowledge that Brexit is inherent in several other risks cited, including government policy and the wider political climate, which was cited as a principal risk on 37 separate occasions, representing a significant increase from 17 in 2018.

Given the international nature of the work undertaken by the organisations sampled, it is perhaps surprising that a minority of organisations reported foreign exchange as a significant risk area. This was cited on 15 occasions, down from 28 last year.

There continued to be many other risks which do not fall within the specific categories we have identified. These risks included trustee recruitment, natural disasters, pension deficits and meeting demand for the charity's services.

> Managing risk effectively remains an area of significant importance for all trustees, including those of international charities which often face a diverse range of risks.

Number of individual mentions by type of risks



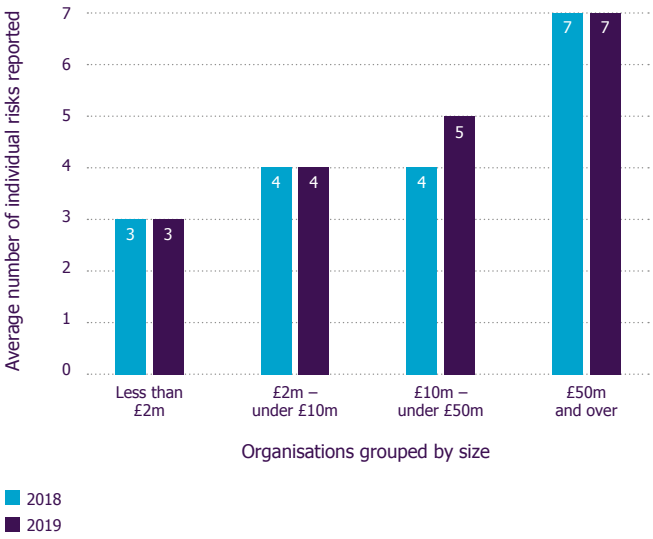
* Other includes a range of risks which do not fit within the above categories, including the need to demonstrate value for money and impact, risks around defined benefit pension schemes and risks in relation to the faith identity of specific organisations.

Safeguarding – questions to ask:

1. Do we have a safeguarding policy that clearly lets trustees, staff, volunteers and beneficiaries know what their roles, rights and responsibilities are? If not, why not?
2. When was the policy last reviewed and by whom?
3. Is safeguarding considered as part of the decision making process by relevant groups or committees, including HR, programmes and grants?
4. Are safeguarding risks incorporated into the risk register and monitored as part of the risk management process?
5. Do we have a process to confirm that our partners and grant recipients have adequate safeguarding policies and procedures?
6. Is it clear how matters of concern can be reported to us and do we have a formal whistleblowing policy for dealing with them?

Across all the charities sampled, an average of 3.6 risks were reported within the trustees' report (2018: 3.4 risks). It is unsurprising that larger organisations reported more risks than smaller organisations.

Average number of risks reported by size of organisation



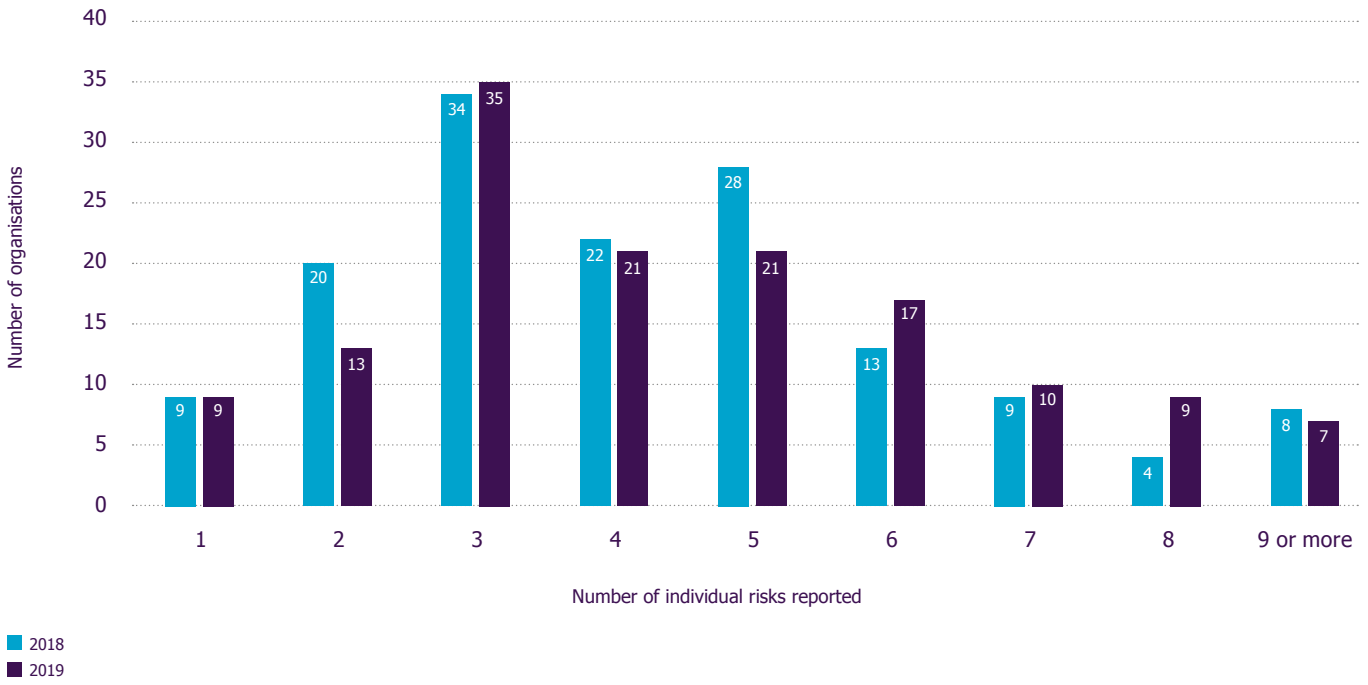
Thirty eight (21%) of the charities sampled reported no principal risks. This is a small reduction compared with 2018, where we identified that 42 (22%) charities reported no principal risks. Of those 38, seven (2018: 11) had income below £1m.

> "Safeguarding was reported as a principal risk on 52 occasions, significantly up from 2018 (15 occasions)."

As last year, the most commonly reported number of risks was three (35 organisations this year). This was followed by organisations reporting five risks and four risks (both reported by 21 organisations). The most significant increase in the number of risks reported was in charities reporting eight risks (increasing to nine charities from four in the 2018 report). Whilst this may indicate more comprehensive disclosure, organisations should continue to take care that the disclosure focuses on the most important risks and provides clear and helpful information to users of the accounts.

Our review continued to identify significant variances in the quality of disclosure of risk within the sample. The strongest risk disclosures set out the processes to manage risks, were specific in the risks identified and were clear as to the strategies in place to mitigate the risks. In our view, weaker disclosures provide generic descriptions of the risks involved, or simply explain that there is a risk management process in place, without explaining the risks identified.

Organisations by number of risks reported



Reserves

There are many reasons why charities hold reserves. These include working capital, providing resilience against risks and uncertainty, and the ability to invest in future services. Our experience is that more charities are seeking to link their reserves requirements to their risk assessment and have broadened their thinking about why reserves are held and the level of reserves required.

As in 2018, only one charity included in our sample had a funds deficit. All other charities sampled had a net assets position. We identified a small increase in the number of organisations reporting a deficit on unrestricted funds, which increased to five in 2019 from four in 2018.

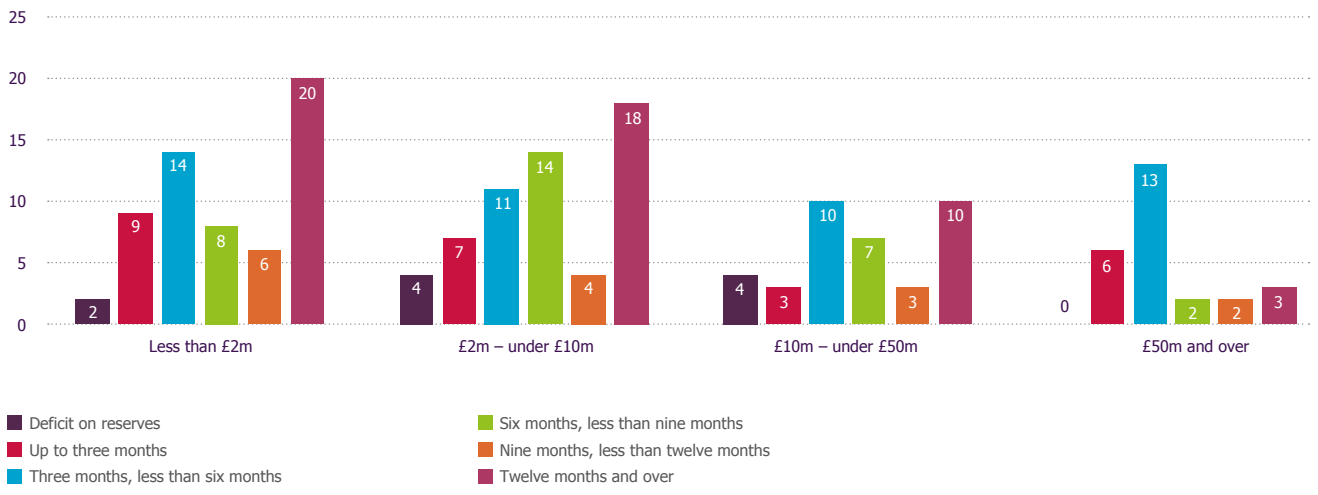
As in 2018, we identified significant variances in the levels of reserves held. To provide comparable data, we calculated a consistent measure of free reserves by taking all unrestricted funds (including designated funds) and deducted unrestricted fixed assets. We then compared the reserves calculated to the current year's unrestricted expenditure.

Utilising this measure, ten organisations (5.6%) showed a deficit on unrestricted funds. This is a small increase compared with 2018, when we identified nine organisations (4.7%) with a deficit on unrestricted funds calculated in this way.

There were a further three organisations (1.7%) reporting unrestricted funds equivalent to one month or less of unrestricted expenditure (2018: eight organisations). Care must be taken where there are low levels of unrestricted funds, given where the restricted funds' balances are significant, as this can lead to restricted funds being used to fund unrestricted costs and therefore, potential use outside of the agreed restrictions.

At the other end of the spectrum, 51 charities (28%) reported unrestricted funds equivalent to one year or more of unrestricted expenditure, with 17 charities (9%) reporting unrestricted reserves equal to more than two years of unrestricted expenditure. This is similar to 2018 when we found 51 organisations holding more than one year of unrestricted expenditure in unrestricted funds and 22 holding more than two years' unrestricted expenditure in unrestricted funds.

Unrestricted reserves less unrestricted fixed assets, expressed in months of unrestricted expenditure



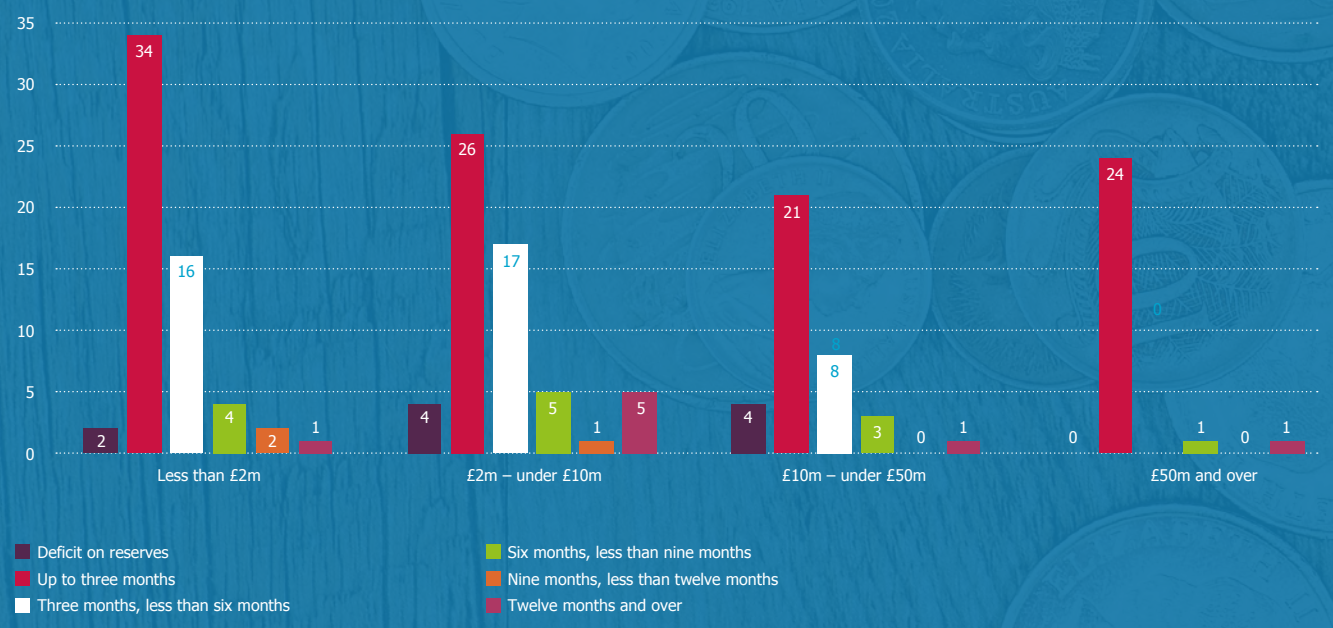
Many charities receive restricted funds. Restricted funds are given by a donor for a specific purpose which is narrower than the overall objects of the recipient charity. Consequently, any restricted funds carried forward do not form part of the free reserves of a charity as they cannot be used for any purpose.

In an ideal world, there will always be sufficient restricted funding to fund restricted expenditure. However, there are some circumstances in which this will not be the case. This includes overspends on restricted funds, which will be funded by unrestricted funds unless there is another suitable restricted fund to cover the overspend. It also includes situations where a project has previously been funded by restricted funding which comes to an end. The charity then has three options available to it: close the project; replace the restricted funding with other restricted funding (subject to availability) or fund the project out of unrestricted funds.

For this reason, it can also be helpful to consider the unrestricted funds held compared with months of total expenditure. Using the same methodology as above, we found that ten organisations (5.6%) showed a deficit on unrestricted funds using this measure. A further 41 organisations (23%) were carrying free unrestricted funds sufficient to cover one month or less of their total expenditure. For this reason, it is important that management and trustees understand what is currently funded by restricted income, when this funding will come to an end and what contingency plans are in place in the event of a loss of funding.

Conversely, a small number of organisations (eight, or 4.4%) had free unrestricted funds sufficient to cover more than one year of total expenditure.

Unrestricted reserves less unrestricted fixed assets, expressed in months of total expenditure



> In an ideal world, there will always be sufficient restricted funding to fund restricted expenditure. However, there are some circumstances in which this will not be the case.

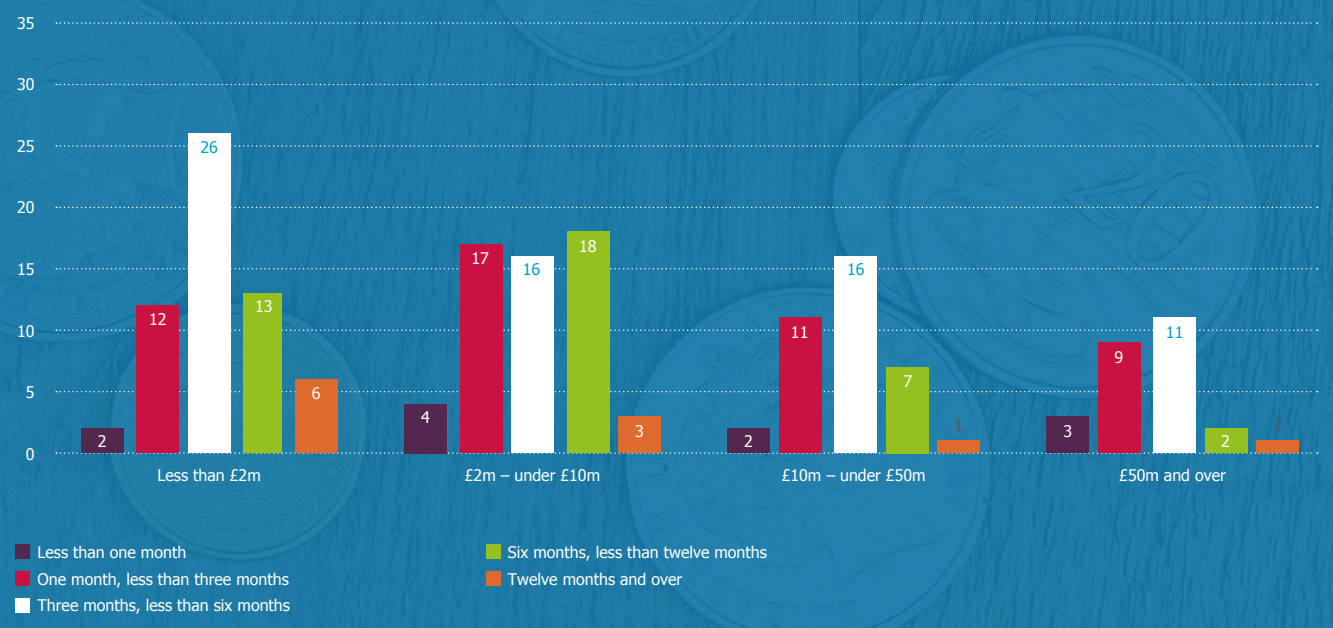
In addition to reserves, it is also important to consider a charity's level of liquidity. This is a particularly important area for grant funded charities where there are significant payments in arrears to reimburse expenditure already made, or for international charities with field offices where cash is held across multiple locations and there may, therefore, be challenges in treasury management.

Across the sample, organisations held an average of 4.9 months' expenditure in cash and investments (2018: 4.9 months). When incorporating long term investments (excluding property and programme related investments) the average increases to 5.9 months. In our 2018 report this was 7.5 months, however, this reduces to 5.8 months when excluding charities included in the 2018 sample but not the 2019 sample. The spread of cash and investments held is demonstrated in the two graphs below.

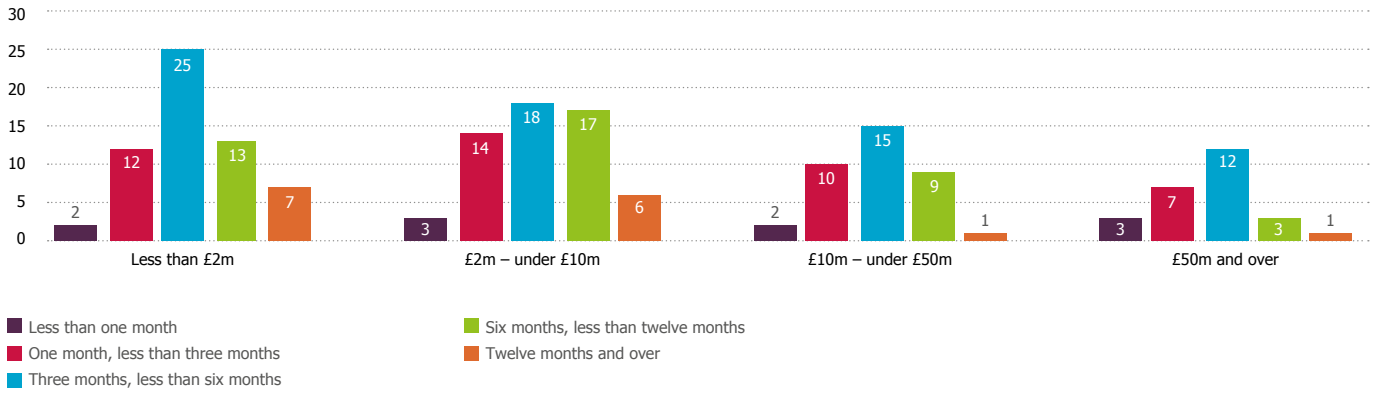
We identified eleven charities (5.6%) in the sample holding cash and short term investments sufficient to cover less than one month of expenditure (2018: nine, or 4.8%). When long term financial investments are taken into account, this number reduces slightly to ten.

A small number of organisations (11, or 5.6%) held short term investments and cash sufficient to cover more than one year of expenditure. All but two of those organisations had annual income of below £10m.

Cash and short term investments in months of expenditure



Cash and investments in months of expenditure



What makes a good reserves policy?

As last year, we found that there was a considerable variance in the quality of reserves policies. A clear reserves policy can give confidence to stakeholders by explaining the funds held by a charity and the reasons for holding those funds.

In our view, the strongest reserves policies clearly set out the types of reserves held, the reasons for holding those reserves, the level of reserves required, the actual level of reserves held and explain any significant differences between the policy and the actual position.

The strongest policies will reflect that there are many reasons why a charity holds reserves, and these can include working capital, contingencies for unexpected events, investment in future activities and the costs of closing either the charity or individual projects. In doing so, stronger policies reflect the risks faced by the charity and link the reserves requirements to the risks faced.

Support and governance costs

Support costs are those costs which are incurred to facilitate an activity, they include central or regional office functions. Governance costs are those costs associated with the legal and governance arrangements of a charity, including the costs of legal advice and strategic management.

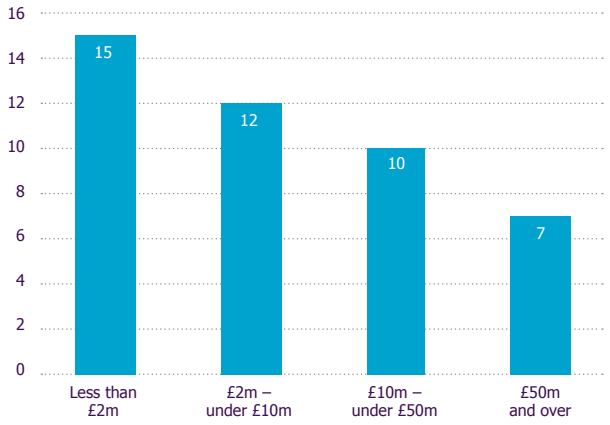
Support costs are an area that many organisations seek to benchmark. However, care must be taken in this area as the cost base of different organisations is naturally expected to vary because of factors including the operating model and operating locations. Understanding the support cost base is particularly important for charities which largely rely on restricted grant funding as they must identify ways of recovering support costs from funding agreements.

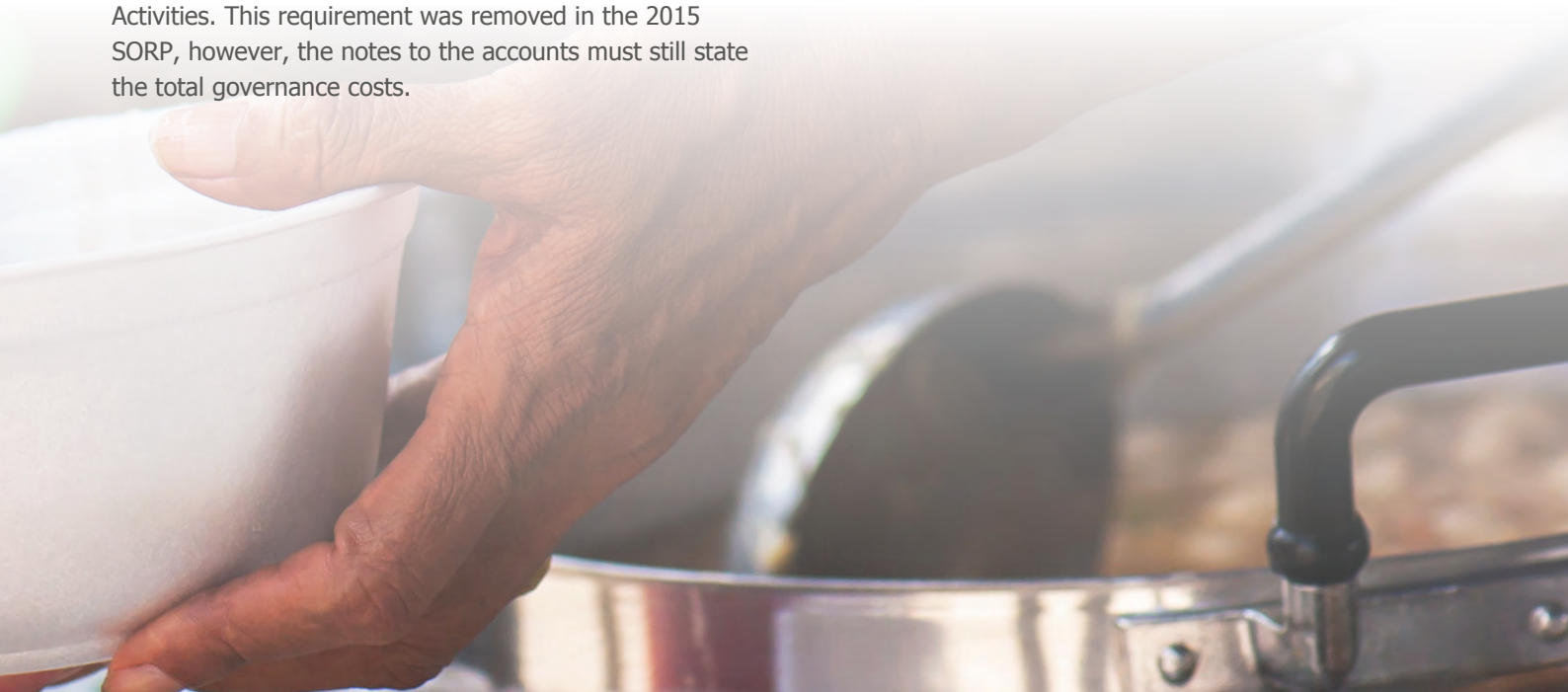
Almost all of the charities included in the sample (169, or 94%) provided a statement of their support costs. We found that support costs (excluding governance costs) averaged 12% of the total expenditure and that the support costs as a percentage of total expenditure decreased as the size of the organisation increased. The smallest charities in our sample, being those with income of less than £2m, reported average support costs of 15% of expenditure, reducing to 7% for those with income greater than £50m.

Under the 2005 SORP, charities had to report governance costs separately on the face of the Statement of Financial Activities. This requirement was removed in the 2015 SORP, however, the notes to the accounts must still state the total governance costs.

Governance costs are typically a much smaller percentage of the cost base. Most of the organisations sampled (151, or 84%) included the total of governance costs incurred in the notes to the accounts. On average, governance costs reflected 1.2% of the overall spend of an organisation.

Support costs as a percentage of total expenditure





Support costs – what should management and trustees consider?

Even the smallest volunteer run charities require some level of overhead costs to support the delivery of their activities. The level of support costs reported by some charities has been the subject of media scrutiny.

As a result of this and other factors, such as scrutiny from donors, there is sometimes a perception that support costs are something which must be minimised or avoided if possible. This perception does not consider the vital key role that support costs play in delivering vital charitable objectives. Each charity will have a different cost base and what is reasonable for one charity will not necessarily be reasonable for another.

The most important first step for management and trustees is to know and understand the charity's cost base. This is sometimes easier said than done and research by Cass Business School[1] found that charities fall into three clear groups: one third know their overheads and are good at recovering costs; one third don't know their cost base or overhead levels and one third are on their way to understanding, but need to improve their skills or understanding. Understanding the cost base means that the charity has a clear understanding of the cost of delivering its activities.

For those charities which rely on grants and contracts, understanding the cost base is especially important as it enables the charity to seek to recover both the direct cost of delivering activities and also potentially, a fair proportion of the support costs which contribute to those activities. If there is a shortfall then understanding its cause can enable management and trustees to make up the shortfall, for example, through the use of fundraising or unrestricted reserves. If the shortfall is not well understood then it is possible that unrestricted reserves will subsidise grant and contract funded activities without the charity making a conscious decision to do so. It is also possible that the overhead recovery will be insufficient, leading to financial challenges or a use of unrestricted funds, which is not optimal.

Reporting support costs in the annual report provides information to stakeholders about the charity's cost base. This usually requires a methodology for allocation of costs to charitable activities. It is important that management and trustees periodically consider what is grouped as support costs in the annual report, and whether there are items which should be correctly allocated to a charitable activity. It is also important that the method of allocation is reassessed periodically to ensure it remains a reasonable way of allocating costs.

[1] *Cost Recovery: Tools for success, doing the right thing and doing them right* published by Cass Centre for Charity Effectiveness, Cass Business School. Authors: Mark Salway and Marcus Lees-Millais

Remuneration

Staff costs include wages and salaries, social security costs and employer costs in relation to pension schemes.

The staff costs base naturally varies significantly between charities with different operating models. Two organisations in the sample stated that they employ no staff, with the remaining organisations employing staff. We found one organisation in the sample which did not have a clear statement of its staff costs as required by the SORP.

We found that staff costs averaged 28% of the total expenditure. The percentage of staff costs decreased as the size of the organisation increased. The smallest organisations in our sample, being those with income of less than £2m, reported average staff costs of 30% of expenditure reducing to 25% for those with income greater than £50m.

Staff costs as a percentage of total expenditure

In almost all cases trustees are unpaid volunteers, though in some circumstances it is possible for a charity to remunerate trustees. We found that seven (3.9%) of organisations included in the sample disclosed trustee remuneration. Where a trustee is remunerated, the SORP is clear that there should be appropriate disclosure including the legal authority under which the payment is made, details of why the remuneration is made and the amount of remuneration.

“We found that staff costs averaged 28% of the total expenditure. The percentage of staff costs decreased as the size of the organisation increased.”

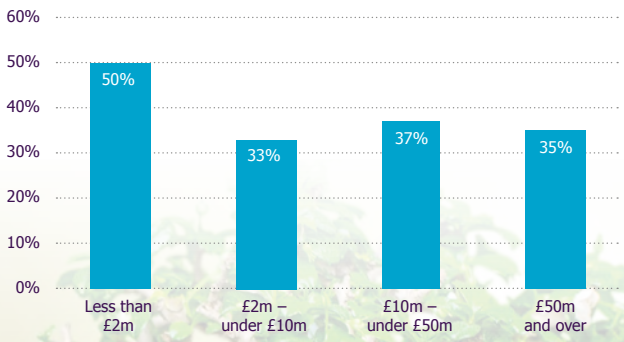
Grantmaking

Grantmaking is one way in which a charity can achieve its objectives. Many charities operating overseas operate through partners and this can be an effective way to support local communities or to provide local reach.

Over half of the organisations in the sample (107, or 59%) clearly stated in the notes to the accounts the amount of grants made. We identified other organisations which appear to make grants based on the narrative in the accounts but did not provide a clear statement of the level of expenditure on grants. Where the level of grantmaking was stated, it averaged 38% of the total expenditure. The level of spend on grants varies significantly and ranged from less than 1% to 96% of total spend.

In general, we found the smallest organisations spent the highest proportion of expenditure on grantmaking. Where grantmaking costs were disclosed, we found that organisations with income of less than £2m per annum reported half of their expenditure was on grantmaking. This compares with around a third for the other expenditure categories.

Grant costs as a percentage of total expenditure



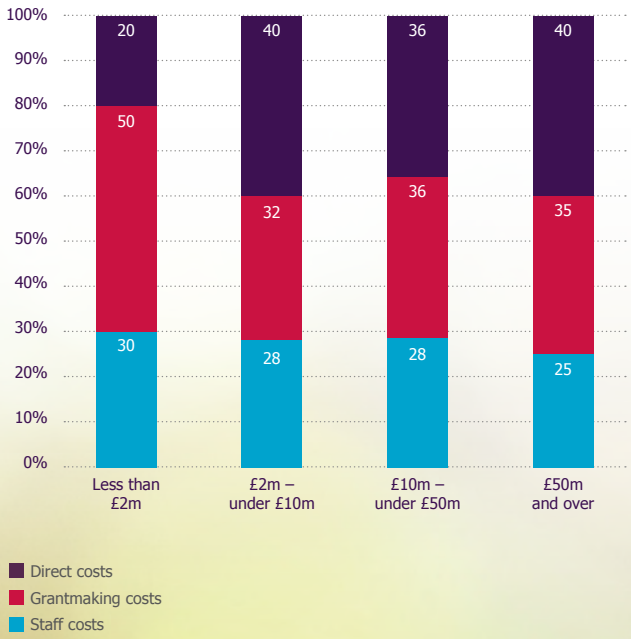
Working with partners – questions to ask:

1. What due diligence processes are in place to assess partners' capabilities?
2. Have you assessed the risks of working with each partner, and if so do you ensure your approach is tailored to that partner?
3. Do you regularly reassess the capability of your partners? As part of this, do you consider the risk of reputational damage to your organisation?
4. What processes are in place to ensure that partners deliver what you expect them to? How do you manage the situation if they do not?
5. How do you ensure that donor requirements are reflected in agreements with partners?
6. How do you ensure that reporting from partners is sufficient to enable you to report to donors?
7. Do your written agreements with partners reflect your current arrangements?
8. For overseas partners, have you assessed whether any payments made to them could be subject to reverse charges?

Expenditure overall

Throughout this report, we have analysed costs in several ways. The below graph shows the typical breakdown of an organisation's expenditure.

Analysis of expenditure



As commented on previously, this highlights that on average smaller organisations are more focused on grantmaking activities and that the percentage of staff costs decreased as the size of the organisation increased.

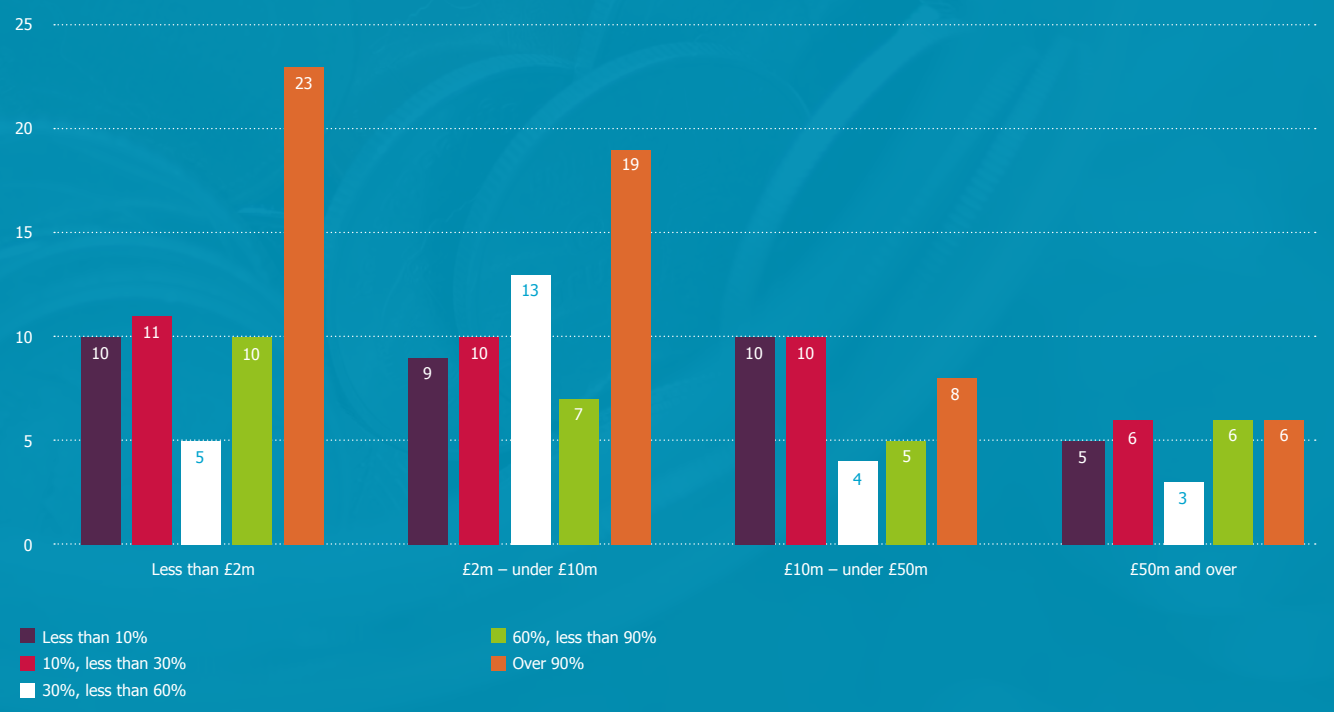
Fundraising

The vast majority of organisations sampled receive voluntary income to some extent, with an average of 52% (2018: 53%) of income being disclosed as voluntary income. Only six organisations (3.3%) reported no voluntary income at all, with just under a third of organisations reporting more than 90% of their income coming from voluntary sources.

As last year, the smallest organisations are the most reliant on voluntary income. 39% of organisations receiving less than £2m income per year report that 90% or more of their income is from voluntary sources. This decreases slightly in the £2m to £10m income range (33%) and again for the largest charities. We found that six (23%) of the largest charities disclosed that over 90% of their income was from voluntary sources. This contrasts with 2018 where we found that 36% of those reporting incomes over £50m reported that 90% or more of that income was from voluntary sources.

With a focus on different ways of raising funds comes a closer analysis of the cost of raising funds, and how the funds are then spent. Across the organisations sampled, the average cost of raising voluntary income as a percentage of the voluntary income received was 26.3%. This figure excludes those organisations receiving only a small proportion of income from voluntary sources, and excludes the cost of trading and investment manager fees. This figure represents an increase of 1% from 2018 (25.3%).

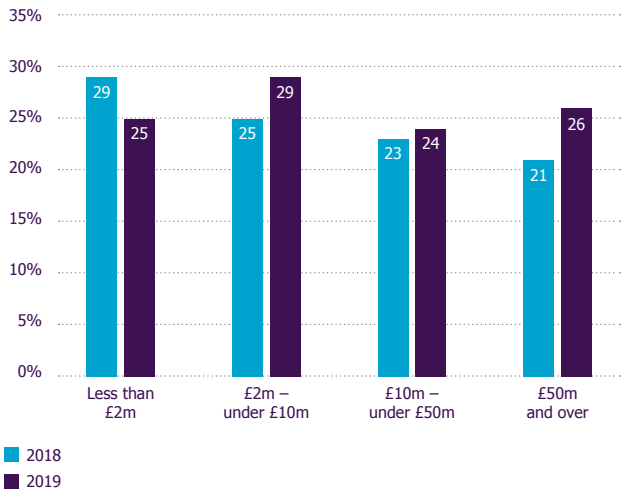
Voluntary income as a percentage of total income



Last year we found a clear correlation between the size of organisation and the cost of raising funds, however, the picture this year was much more mixed.

Organisations with annual income below £2m spent an average of 25% of the voluntary income raised to generate those funds (2018: 29%). This increases to 29% for organisations with between £2m and under £10m of income and then decreases again for the larger organisations.

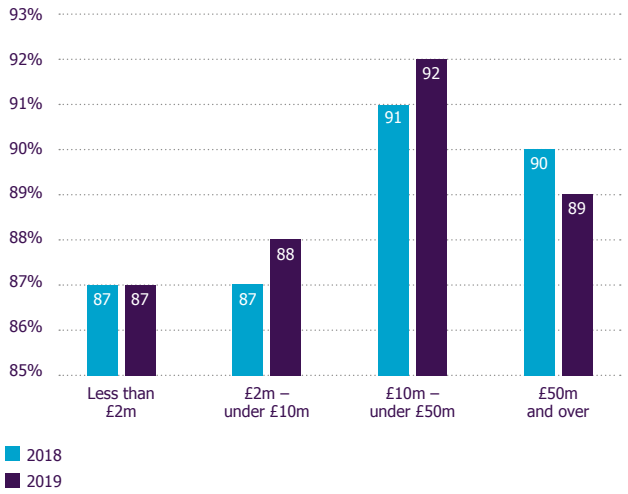
Cost of raising voluntary income as a percentage of income raised



It is also helpful to consider the percentage of expenditure which is spent on charitable activities (this excludes both the cost of raising funds and other expenditure disclosed). Two organisations sampled (1%) reported that less than half of their expenditure was spent on charitable activities, in both cases reflecting significant costs of raising funds. On the other hand, 13 organisations (7%) reported that 100% of their expenditure is spent on charitable activities and disclosed no costs of raising funds or other types of expenditure.

Across all organisations sampled, an average of 88% of expenditure was spent on charitable activities. This represents a decrease of 1% from 2018, where we found that an average of 89% of expenditure was spent on charitable activities.

Percentage of expenditure spent on charitable activities



> Thirty nine percent of organisations receiving less than £2m income per year report that 90% or more of their income is from voluntary sources.

The highest proportion of expenditure spent on charitable activities continues to be by charities within the £10m to £50m income range. This may well reflect the average income mix in this bracket (as separated previously) with over half of the organisations in this category showing less than 30% of their income coming from voluntary sources. Whilst we found that, on average across the whole sample, 52% of income was from voluntary sources, this fell to 41% for charities receiving income of between £10m and £50m.

There has been considerable focus in the media about charity fundraising practices. Section 13 of the Charities (Protection and Social Investment) Act 2016 requires that charities must include additional information on their fundraising practices in the trustees' report. This applies to all charities who have their accounts audited for periods beginning on or after 1 November 2016 and our experience was that many organisations adopted the regulations before they became mandatory.

This applies to almost all organisations sampled, with a minority of organisations (4, or 2.2%) having periods which began before 1 November 2016. We found that most organisations (103, or 57%) included a section in the trustees' report covering the new requirements.

Of the 77 organisations which did not include such a section within the trustees' report, the vast majority (63, or 35%) had income below £10m. Almost all of these organisations reported receiving some voluntary income. This disclosure is an important way of communicating fundraising practices to stakeholders.

Fundraising – questions to ask:

1. Who is responsible for submission and approval of bids? Does this group include varied expertise including finance and programmes?
2. How do you ensure that you have the capabilities to manage the funding before bids are submitted?
3. If you are taking on new forms of funding, what systems and capabilities are needed to manage that funding?
4. If you are taking on new forms of funding, do you have sufficient expertise to assess the potential tax and VAT implications of the income? If not, where will this advice be obtained from?
5. How do you identify restrictions on grants and are these communicated to the finance team and key stakeholders on a timely basis to ensure compliance?
6. Do you know what impact the social and/or economic climate is having on your donors and support for your charity?
7. If the charity fundraises from the public, are you aware of the measures in place to protect vulnerable donors and to manage third party fundraisers? Are these measures reviewed regularly?
8. Do you review the key fundraising ratios and how do you assure yourselves as to the appropriateness of those ratios?

The trustees and their committees

The trustees of a charity have the ultimate responsibility for governing a charity, and this applies to all trustees, no matter how large or small the charity is. Whilst the underlying duties are the same, the demands on individual trustees will vary considerably from charity to charity. Similarly, different charities will have different needs in relation to the size and composition of its board.

We have considered the average size of the board of trustees. Across the sample, the average board of trustees consisted of nine individuals (2018: 9.1). The smallest board of trustees consisted of two individuals, and the largest board of trustees consisted of 30 individuals. We also noted two charities in the sample which had a corporate trustee.

Sixteen (8.9%) of the organisations sampled had a trustee board consisting of fewer than five individuals, with a similar number (13, or 7%) having a trustee board consisting of 15 or more individuals. This is similar to 2018, where we found that 16 organisations had a board of fewer than five individuals and that 17 had a board of 15 or more individuals.

> Many trustee boards choose to utilise committee structures to enable closer scrutiny of particular areas, such as finance, risk, governance, or grantmaking.

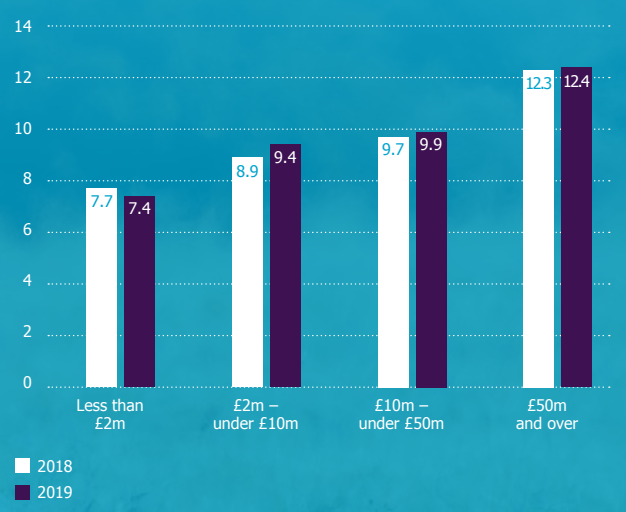
As shown below, the average size of the trustee board increases as the size of a charity increases. Charities with income below £2m had an average trustee board of 7.4 individuals, whereas the largest charities had an average trustee board of 12.4 individuals. This correlation is unsurprising given the size and complexity of the largest international charities.

Many trustee boards choose to utilise committee structures to enable closer scrutiny of particular areas, such as finance, risk, governance, or grantmaking.

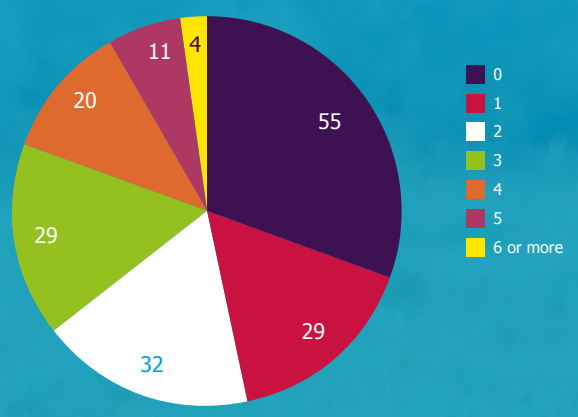
Over two thirds of the charities sampled disclose the use of one or more committees within the annual report, though we consider it likely that there are additional committees not explained within the annual report. The level of disclosure varies between simply acknowledging the existence of a committee through to explaining in detail the composition of a committee, the role within the overall governance structure and the work of that committee during the year.

The most common number of committees disclosed continues to be two (18% of charities) followed by one and three (both 16%). In our experience, the single most common committee utilised is a finance committee.

Average number of trustees



Organisations grouped by number of committees



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haysmacintyre is an award winning top 25 firm of chartered accountants and tax advisers, with 34 partners and over 300 staff, providing advice to entrepreneurs, fast-growing and owner-managed businesses, charities and not for profit organisations across the UK and internationally.

Sector specialism

Our expert charities and not for profit team is one of the largest in the country, acting for over 700 charity clients. We are listed as one of the leading advisers to the top 5,000 charities (Charity Financials' League table 2019) and ranked as top ten by audit fees in the 2018 Charity Finance Audit Survey.

International

haysmacintyre is a member of the MSI Global Alliance (MSI), which we co-founded over 25 years ago, with the aim of supporting our clients' international business operations and growth plans. MSI is now the seventh largest alliance of its kind in the world, comprising over 250 medium sized legal and accounting firms based across more than 100 countries. Being part of MSI Global Alliance allows us to offer our clients expert guidance and support internationally through working with our alliance colleagues worldwide.

FINALIST — Finalist: Tax Team of the Year

2017 WINNER — Winner: Audit Team of the Year

SPORTS BUSINESS AWARDS 2018 — BRONZE Best Professional Services Firm in Sport — Winner of the Bronze Award for 2018 and 2017

Charity Financials — Top adviser to the top 5,000 charities, Charity Financials' league table 2019

CharityFinance — Top ten by audit fees in the 2018 Charity Finance Audit Survey

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