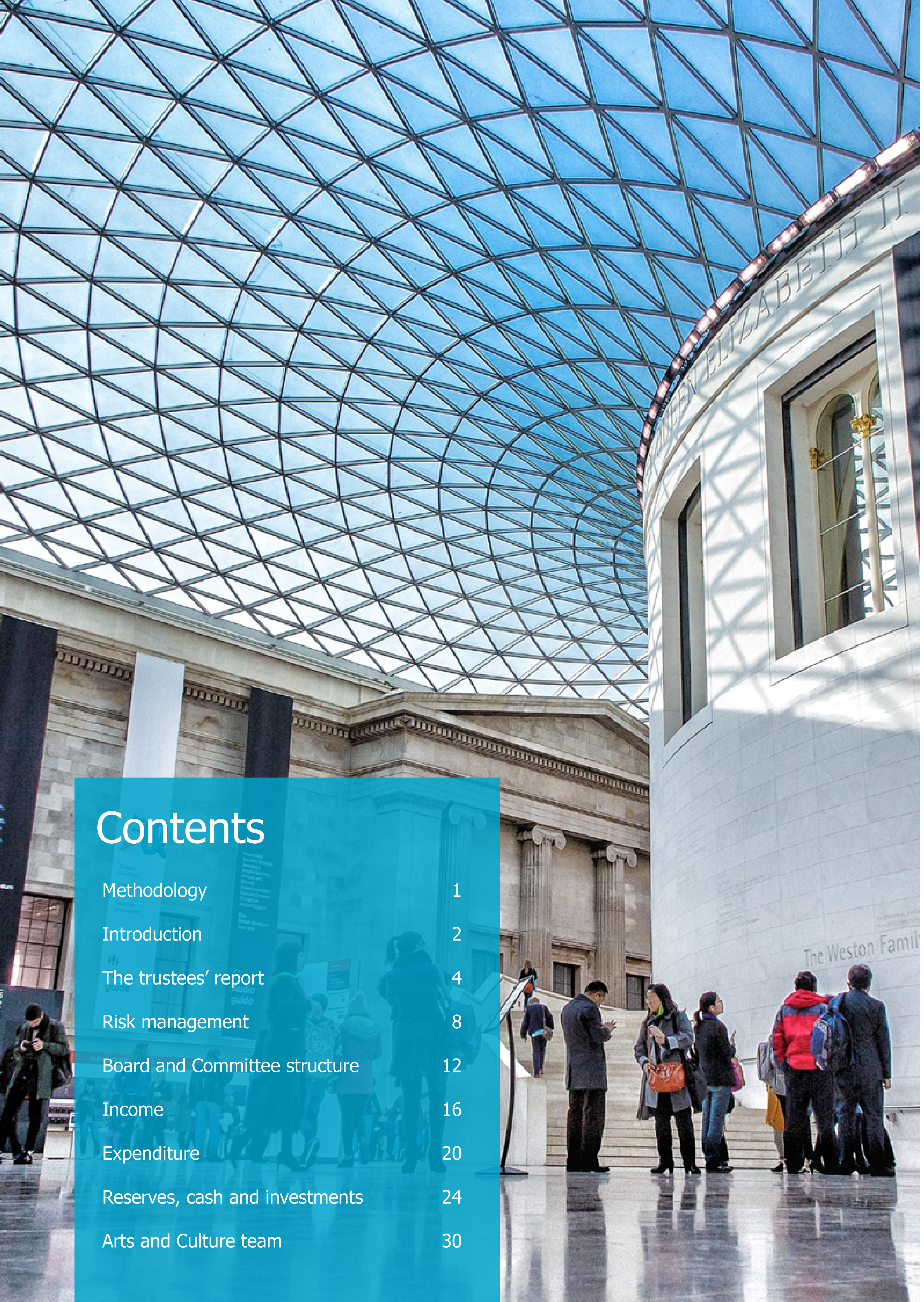
haysmacintyre

Arts and Culture
Benchmarking Report 2021



Contents

Methodology

Our report analyses the accounts and trustees' annual reports of a selection of UK charities in the Arts and Culture sector

Our review incorporated over 100 charitable organisations within the arts and culture sector. We have focused on charities with income greater than £0.5m and have selected a range of organisations from different categories within the sector: galleries, grant-makers, museums, touring performing arts charities, theatres, other cultural venues and umbrella and membership bodies.

We obtained the most recent published accounts and trustees' annual reports from the Charity Commission website, along with the financial statements for the comparative period. The data disclosed as 2020 in this report covers financial reporting periods ending between 31 January and 31 December 2020, with 66% of surveyed charities having a 31 March year end. The sample includes organisations with total income of £1.35bn, net assets of £2.2bn, and more than 15,000 employees.

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

For the purpose of this analysis, we have categorised each organisation into the following income brackets: less than £1m; £1m to less than £5m; £5m to less than £10m; £10m to less than £15m; £15m to less than £20m; and £20m and over. Income is one measure of size and activity, and we have used this to group organisations, however, we acknowledge that it is not necessarily an indicator of complexity.

All information has been taken from publicly available accounts and trustees' annual reports 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 when analysing the data.

Introduction

We are delighted to present the 2021 benchmarking report for charities in the Arts and Culture sector.

This report aims to enable management and trustees to assess their charity's structure, governance and monitoring procedures against comparable charities, and to share best practice in the sector.

We have reviewed a broad range of benchmarks including areas of governance, operations and finances which, in our experience, are most important in achieving good financial governance.

The report includes data compiled from the 2019 and 2020 accounts and trustees' annual reports of charities, which is the latest publicly available data for the majority of organisations at the time of publishing this report. As the majority of charities in the Arts and Culture sector have a 31 March year end, this means that the financial impact of the COVID-19 pandemic is not yet visible in many accounts, however it featured heavily in the risk and future plans sections of most trustees' reports for many charities.

On pages 4-7 we review the length, style and contents of charities' accounts and trustees' reports, and have noted an increase in the number of charities including a foreword at the start of their report. Forewords are a useful and relatively easy way to highlight key information and messages, particularly if you are not preparing a professional, marketing-style document. Interestingly, we identified a number of charities who are not fully complying with the fundraising disclosures in their trustees' reports, and take this opportunity to remind charities of their legal responsibilities in this area.

We also reviewed the disclosures around principal risks and uncertainties in trustees' reports and have reported our findings on pages 8-11. Unsurprisingly, the pandemic was listed as a significant risk by many organisations in their 2020 trustees' report. The level of other risks reported by some charities was relatively low, with 24% of surveyed charities reporting two or fewer risks. As auditors we see multiple risk registers, and the number of risks graded as high risk and/or high impact are often numerous, and so we challenge the sector to consider whether they are including full disclosure of their principal risks and uncertainties in their trustees' reports. Brexit did not factor as a principal risk in many trustees' reports, something which we anticipate may change in the coming year if the pandemic subsides and the impact of Brexit on supply chains and international tourism becomes more identifiable.

Similarly to our 2018 benchmarking review, we have reviewed the Board and Committee structure of surveyed organisations on pages 12-15. The size of most boards has remained constant throughout 2019 and 2020, and the average overall board size was between 5-12 trustees which is the range recommended by the Charity Governance Code. The most popular sub-committees continue to be finance/audit, followed by nominations/ remuneration. A relatively low number of surveyed charities had a fundraising sub-committee (8%). We anticipate this percentage may increase in coming years as arts and culture charities look to diversify their income, particularly as charities' fundraising practices continue to be a focus in the wider charity sector and the press.

On pages 16-23 we have assessed various income and expenditure measures. The overall income generated by surveyed organisations increased by 3% on average from 2019 to 2020, and income from charitable activities continues to be the main source of income for most charities. The initial impact of the pandemic on some charities is likely to have impacted on the data, as voluntary income as a percentage of total income increased from 29% in 2019 to 34% in 2020. We expect this figure to increase significantly in 2021 as many arts and culture charities have received emergency funding including the Coronavirus Job Retention Scheme and the Culture Recovery Fund, and have been restricted in their ability to generate income from their charitable activities. Interestingly, the amount of income generated by trading activities was relatively low across surveyed organisations, and may present an opportunity for future income growth.

Staff costs remain a significant cost for the sector, being on average 39% of total costs in 2020. The average staff cost per employee on a headcount basis is relatively consistent across the sector until charities reach income exceeding £20m.

One of the key expenditure measures that we calculated was support costs as a percentage of total costs. The average for the surveyed charities was 18%, however the figures varied widely across the population, and we suggest organisations with a high or low percentage of support costs in their accounts revisit whether they are appropriately separating their support costs from their direct costs.

The past 18 months have been unprecedented for the sector and the availability of free reserves has been brought into sharp focus by the pandemic. On pages 24-29 we have analysed the level of reserves held by surveyed charities and found that many surveyed charities ended their 2020 financial year with free reserves covering less than five months' expenditure, showing how vital emergency support will have been to supporting the sector throughout the pandemic. We have also considered the level of cash and investments held by surveyed charities including the investment of surplus cash. The number of charities investing what appears to be surplus cash is relatively low. This is unsurprising in the current economic climate, with low interest rates and a relatively high level of funds often needed to deposit monies with investment managers.

My thanks go to the Arts and Culture team at haysmacintyre for their assistance in compiling this report. We hope you find it useful and informative, and that it stimulates discussion within the sector.

We welcome feedback on the contents of the report, as well as suggestions for areas to benchmark in the future.

If you would like to discuss any of the points raised in this report please do not hesitate to get in touch with me using the contact details below.

Jane Askew
Director, Head of Arts and Culture
020 7969 5683
jaskew@haysmacintyre.com

The trustees' report

We are increasingly seeing arts and culture charities using their trustees' report and accounts as a communication tool as well as a compliance document. The 2020 reports will have been completed during the pandemic, and disclosures around the impact of the pandemic on future plans and activities were included in the vast majority of reports. Regulatory requirements have increased in recent years and an increasing number of charities are using forewords and graphics to highlight the key messages in their report.

Length of the document

The number of pages in the accounts and trustees' reports reviewed in our sample varied significantly. The shortest 2020 document was 18 pages, with a three page trustees' report. The longest document was a huge 179 pages, with the trustees' report spanning 76 pages. This report was an outlier from the remainder of the data, and we have removed it from the graphical analysis. The average length of the trustees' report and accounts in 2020 was 45 pages: a two-page increase on the average 2019 report length. Interestingly this has not been driven largely by an increase in the length of the trustees' report, with the average length remaining at 16 pages. We are however already seeing increases in 2021 trustees' report lengths, when disclosures about the impact of COVID-19 will combine with the implementation of revised auditing standards which have increased the length of the auditor's report.

As expected, larger charities often had longer reports than smaller charities, with an average of 28 pages in charities with income below £1m increasing to an average of 61 pages for charities an income above £20m and over. Across all the income groupings, the average length of the trustees' report and accounts has remained broadly consistent from 2019 to 2020.

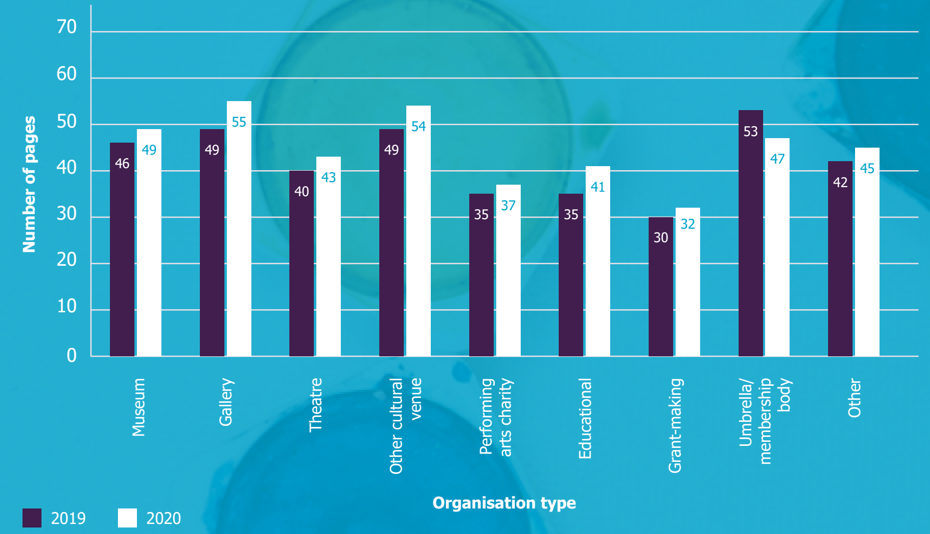
Number of pages in the accounts and trustees' report by income size

Number of pages in the trustees' report by income size

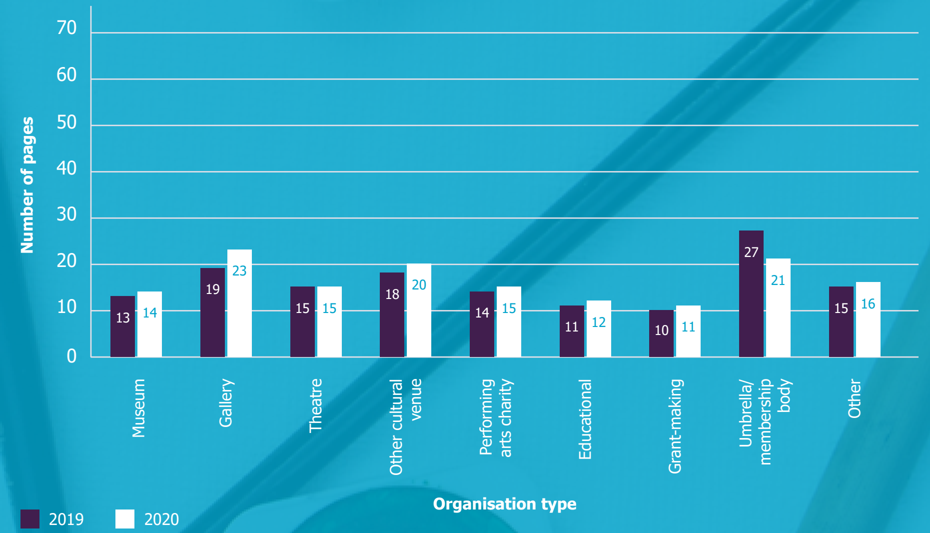
Different categories of charity have different average lengths of reports. Umbrella and membership bodies had relatively long documents in 2019, an average 47 pages in 2020 (2019: 53 pages), reflecting that these accounts are often a key communication tool to their membership. During 2020, the length of documents for museums, galleries and other cultural venues increased.

Grant-making charities have the shortest documents on average at 32 pages. This is not unexpected, as some grant-makers may use their accounts primarily as a compliance document, with communications with potential grant recipients more often being made via their website.

Number of pages in the accounts and trustees' report by category



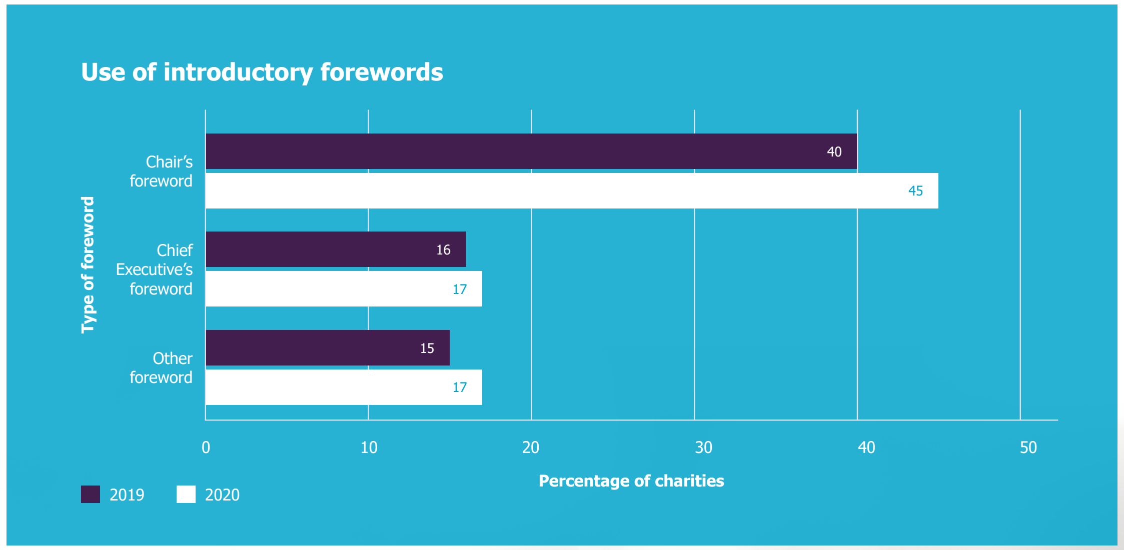
Number of pages in the trustees' report by category



Use of a foreword

One strategy that a charity can use to emphasise their overall driving message is by including a foreword by an individual such as the Chair or Chief Executive. Forewords provide an opportunity to highlight key achievements and messages from the trustees' report, as well as providing an overview of the reporting year and future plans. They are also an opportunity to express gratitude to staff members, retiring trustees, and supporters.

We have seen a 5% increase in the number of charities including a Chair's foreword, with 45% of charities including them in their 2020 accounts. 17% of charities included a Chief Executive's report in their 2020 accounts (2019: 16%), 14% of charities included both (2019: 10%) and 17% of charities included another form of foreword (2019: 15%). If you include more than one foreword it is important to ensure that the information included is complimentary without being repetitive. For example, the Chair's Report could focus on overall achievements and thanking key supporters and staff, and the Chief Executive's report could focus on strategy and future plans.



Fundraising regulation

2021 is the fifth anniversary of the Fundraising Regulator, and there continues to be significant focus on charity's fundraising practices both from the Charity Commission and the press. In their latest Annual Complaints Report (November 2019), The Fundraising Regulator noted that the total number of complaints received about charities' fundraising practices had increased by 13%, with the most complained about methods of fundraising being charity bags, online fundraising and face-to-face fundraising.

We know that arts and culture charities fundraise using a wide variety of methods and that many do not directly fundraise from the general public, however any charity with income above £1m is required to comply with section 13 of the Charities (Protection and Social Investment) Act 2016 and include additional information on their fundraising practices in their trustees' report. In June 2020 the Fundraising Regulator performed a review of a selection of charity accounts and noted that only 21% of charities were complying with all of the act's requirements, and an astonishing 15% were totally non-compliant. We identified a similar trend in the reports we reviewed: 22% of relevant charities had not included a statement about their fundraising practices within their accounts, despite this being a legal requirement.

New guidance was issued by the Fundraising Regulator to tackle the issue of non-compliance and can be found here.

Colour reports

The number of charities producing professional, marketing-style annual reports has slightly increased between 2019 and 2020. 18% produced glossy publications (2019: 16%), which serve as a useful tool to highlight key messages and impact. Producing such a document takes time and financial resources, and so it was interesting to see that the majority of charities producing these documents were in the £1m-£5m income bracket – linking, perhaps, with their reliance on voluntary income as noted later on in the income section of this report.

The Charity Governance Code

Many charities review their governance on a periodic basis against the Charity Governance Code (the Code), which was updated most recently at the end of 2020. The Code is not mandatory and it recognises that governance can look significantly different depending on a charity's size, income, activities and complexity. The Code recommends a number of specific disclosures for charities' annual financial statements, including whether the charity has complied with the code. 32% of surveyed charities had included disclosures around their compliance with the governance code in their trustees' reports.

Filing accounts on time

10% of the charities surveyed filed their financial statements with the charity commission late in 2020. It is extremely likely that these late filings were mainly due to the disruption caused by the pandemic, as only one of the organisations who filed late in 2020 also filed late in 2019.

Risk management

The impact of the pandemic on organisations is clearly evidenced in the disclosure of risks in the annual report, with 64% of organisations specifically listing COVID-19 as a principal risk in their 2020 financial statements. Risk reporting continues to vary widely across arts and culture charities and the level of disclosure in some instances falls below what is required by the Charities Statement of Recommended Practice (SORP).

Responsibilities of disclosing principal risks

Before the introduction of the SORP 2015, it was sufficient to simply state that the major risks to which the charity is exposed (named or unnamed) have been reviewed, and that systems have been established to manage those risks. The SORP 2015 introduced greater transparency requirements around risks, and mandated that all charities with income above £500,000 must set out the principal risks and uncertainties facing their charity in the trustees' report, as well as their plans and strategies for managing those risks.

6% of the charities we reviewed reported no risks in their 2020 trustees' report, an enviable position which is most likely a result of omission rather than of fortunate circumstances. This figure is a reduction from 2019, when 12% reported zero risks, suggesting that organisations have taken the shifting circumstances in the past year as an incentive to re-evaluate their risks and update some long-standing and often outdated disclosures. Entities not reporting any risks would appear to be in breach of their reporting responsibilities under the SORP and could find themselves at increased likelihood of being investigated by the Charity Commission.

It is strongly encouraged that trustees maintain a risk register which is updated regularly and presented for discussion at each board meeting. We are increasingly seeing charities assigning specific sections of their risk register to sub-committees for monitoring purposes. A comprehensive risk register which assigns a score to each individual risk will provide an ideal template for disclosures when drafting the trustees' report.

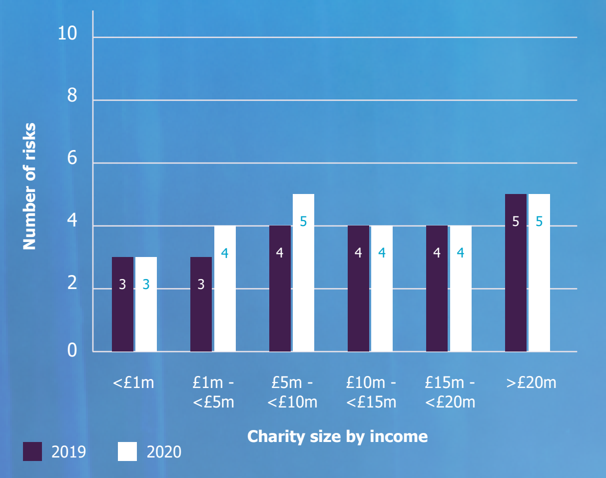
Number of risks reported

Catalysed by the pandemic, arts and culture charities have needed to re-evaluate the risks they face in a changing and complex environment, and it is encouraging to see that most have taken the opportunity to update their trustees' report to discuss and disclose the significant risks identified. On average, the number of significant risks disclosed has increased to 4.5 in 2020, up from 3.6 in 2019. The pandemic was the main cause for the increase in risks, reflecting the challenges of the past year.

Small increases were seen across all income bands, reflecting that charities of all sizes have been subject to greater risk from more challenging conditions.

Many of the risks reported were purely financial focused, and we recommend that organisations consider whether there are other significant risks, for example reputation risk or safeguarding risks, which would have a significant impact if your risk management strategies were not followed appropriately.

Average number of risks reported in the trustees' report by income level



Average number of risks reported in the trustees' report by category

The pandemic effect

64% of surveyed trustees' reports specifically listed the pandemic as a significant risk in 2020, confirming that this sector has been severely hit by prolonged closures and lockdown restrictions.

Pandemic responses included in the trustees' report range from utilising the government's furlough scheme (68%), the Culture Recovery Fund (44%) and the receipt of local government grants (31%).

Brexit

Only 17% of those sampled listed Brexit as a significant risk. Although some of the charities surveyed are reliant on the domestic market, we believe this is mainly due to the short-term impact that COVID-19 has had on tourism since March 2020. Those listing Brexit as a significant risk include a number of orchestras and choirs, where concerns relate to the ability to attract international talent from Europe as well as the added complexity of touring in future years. Similarly, theatres and opera houses expressed concerns regarding attracting international talent and a prudent anticipation of decreased tourism footfall in city centres. Charities identifying Brexit as a risk tended to be larger, with revenues generated at least in part overseas. COVID-related travel restrictions are likely to mask these concerns in the short-term, so the specific impact of Brexit may not be apparent for some time yet.

Safeguarding

19% of charities explicitly listed their safeguarding practices in their trustees' report. These were largely entities like theatres who mention policies in place surrounding the safeguarding of children and vulnerable adults, whether as performers or as part of outreach programmes. Arts Council England (ACE) requires all organisations who work with vulnerable people to have a safeguarding policy in place in order to receive funding. Our survey showed that a large number of ACE National Portfolio Organisations did not disclose any information about their safeguarding policies or safeguarding risk in their TAR. For organisations working with vulnerable persons, a breach in safeguarding would likely constitute a significant risk, and we would urge these organisations to include this as part of their risk register and consider disclosing their measures for ensuring a robust safeguarding policy in their report.

Board and Committee structure

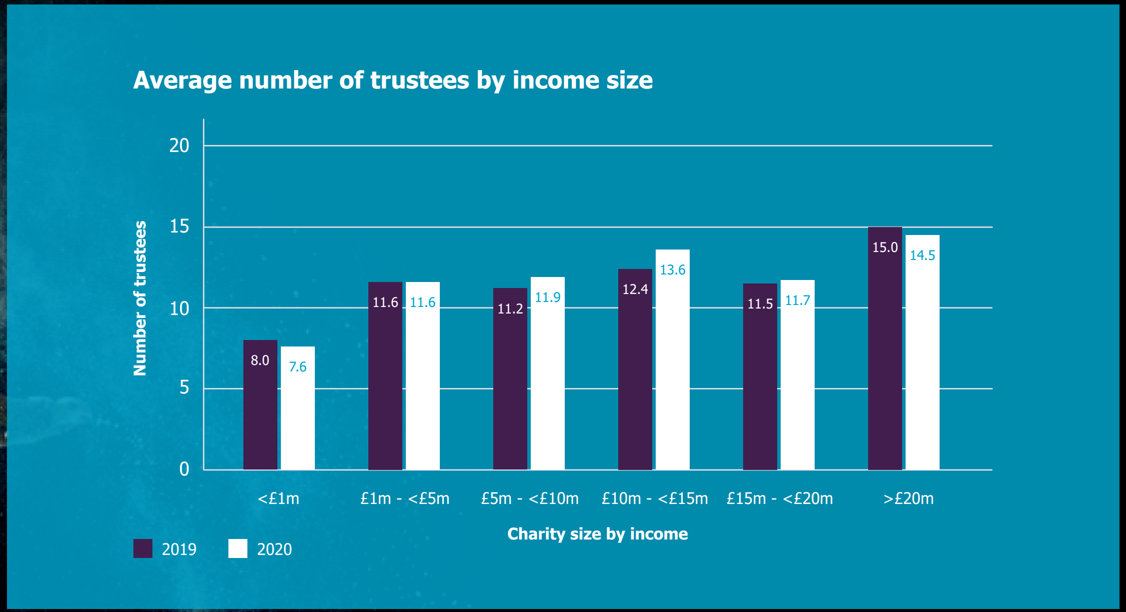
The role and effectiveness of governance in charities has been placed in sharp focus in the last year. High profile charity failures have been linked directly to problems with governance, which in turn has led to reflections on the make-up of trustee boards and the sub-committees that support them. The pandemic has placed charities under significant stress, so those charged with governance have been called upon to work together more frequently, and to make important strategic decisions quickly and more regularly than would normally be required, all while also managing a newly-virtual environment. Despite these challenges, there are opportunities to attract a more diverse range of trustees if you choose to continue with remote board and committee meetings; particularly as recruiting trustees continues to be an obstacle for many.. Now is an important time for all organisations to re-consider whether the existing structure is fit for purpose and future-proof.

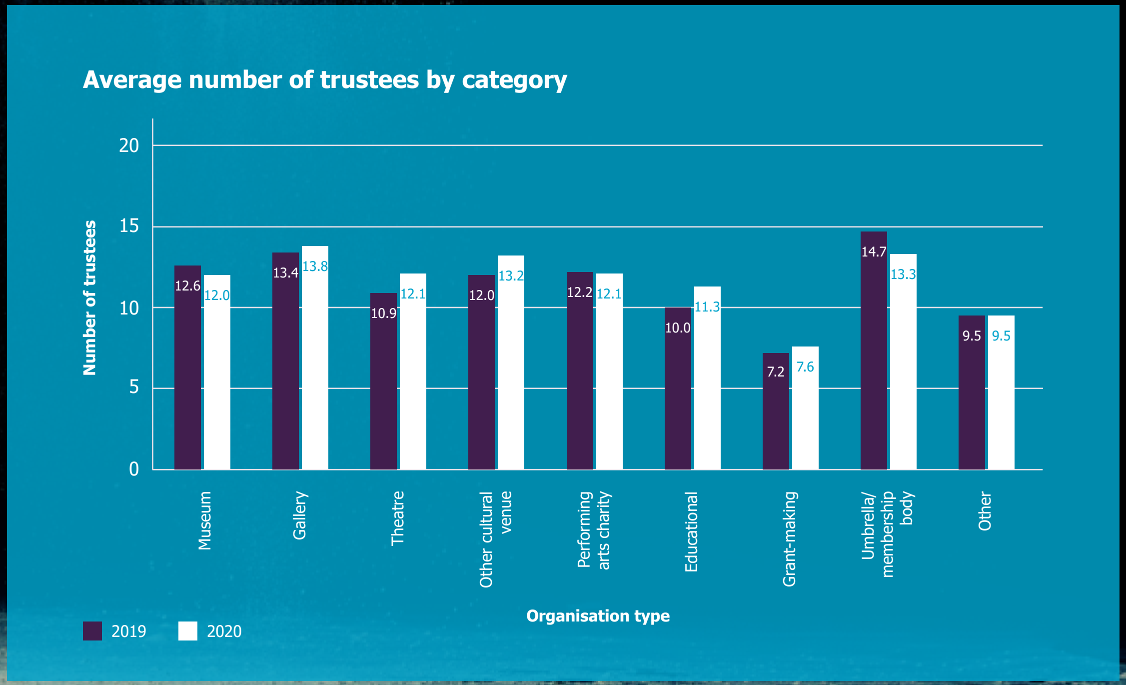
Board size

Overall, the average size of a trustee board has remained fairly consistent between 2019 and 2020. In general, smaller organisations tend to have fewer trustees, with those earning less than £1m having an average of eight trustees. Typically, most organisations have between 5-12 trustees, which is in line with the number recommended by the Charity Governance Code. Although smaller boards can be more agile, they are also more exposed to the risk of losing expertise in the board in the event of resignations, or rotation, as well as the risk of 'perpetual board structures', with long-standing trustees preventing a 'progressive refreshing' of the board. The Charity Governance Code recommends that any trustee reappointment where the term exceeds nine years is subject to rigorous review.

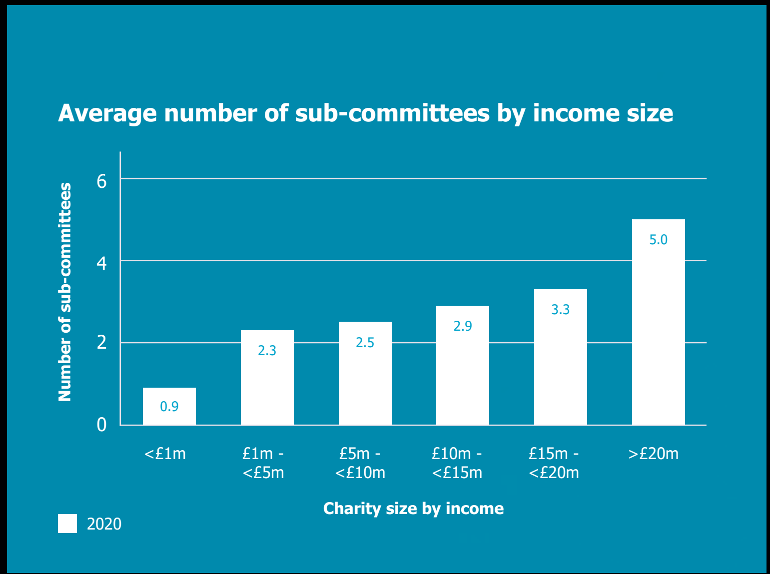
Conversely, the larger the board (the largest in our survey had 24 trustees), the greater the challenge in obtaining a consensus in decision-making. A more streamlined board, supported by effective sub-committees may be more dynamic, particularly during these most challenging times. Co-opted or observer committee members can be used to strengthen committee expertise, while offering volunteers an opportunity to take a role with less time commitment than a full trustee position.

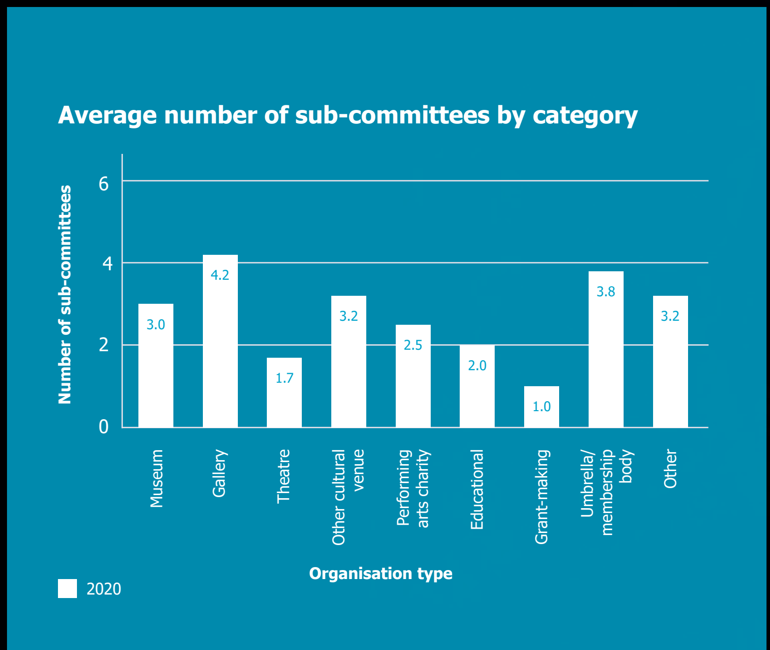
When we looked at trustee boards by different categories within the sector, we found that the number of trustees is broadly similar across each category with around 12 trustees on average. The exception to this is grant-making charities who tended to have smaller boards.





Sub-committees





A board of trustees can be supported by a variety of specialist sub-committees. For governance to be fully effective it is important for trustees to acknowledge and address any areas where support from a specialist sub-committee might be required, and to form it with individuals who have appropriate skills and experience. Responsibility should be delegated effectively to each sub-committee so it has the right level of autonomy, balanced with oversight from the wider board.

Due to the complexity of the Arts and Culture sector, we expect to see the continued use of sub-committees, in particular to provide support for ongoing fundraising efforts, as well as help identify and manage risk in these challenging and uncertain times, in a complex regulatory environment. However, care needs to be taken that the work of sub-committees does not take place in a silo, and that actions and recommendations from each sub-committee are effectively reported to and actioned by management and the board. This helps ensure that everyone is working towards the same strategic goals.

Unsurprisingly, the larger organisations we reviewed had a greater number of sub-committees with an average five sub-committees for those with income exceeding £20m (compared to an average of just one sub-committee for the smallest charities). The number of sub-committees also varied quite significantly across different categories of organisation, with grant-making charities having the fewest and galleries having the most.

81% of organisations we reviewed had a specialist audit committee and/or finance committee. This is by far the most common sub-committee, and a trend consistent with our 2018 benchmarking report. A number of organisations have a combined finance and audit committee. We have seen this position challenged more in recent years, as in some cases the remit of a combined committee may be too broad. In many instances, terms of reference must be reviewed, and once updated, organisations have amended and clarified the role of their respective finance and audit committees, to avoid any duplication of effort or risks arising from a lack of clarity on responsibility.

To ensure that terms of reference are adhered to, a clear agenda should be drawn up for each meeting, with specific standing items on each, including declarations of interest, and an update on matters raised in prior meetings. The most effective boards and sub-committees clearly state actions arising at the end of each meeting, with a timescale and delegation of responsibility for resolution, so that those individuals can be held to account regarding progress at subsequent meetings.

The second most popular sub-committee was a nominations/remuneration committee – with 37% of charities having one. Only 8% of charities had a fundraising committee, but we may see an increase in forthcoming years as arts charities seek to generate more voluntary income to support their costs, and also in response to the increasing regulation around fundraising activities.

In conclusion, it is no surprise that the challenging environment over the last year has led to changes in governance as the needs of an organisation evolve. This could be in the form of greater diversity in boards of trustees, clarifying the responsibilities of existing committees or through reviewing the committee structure in place. We fully expect this transition to continue in the forthcoming year.

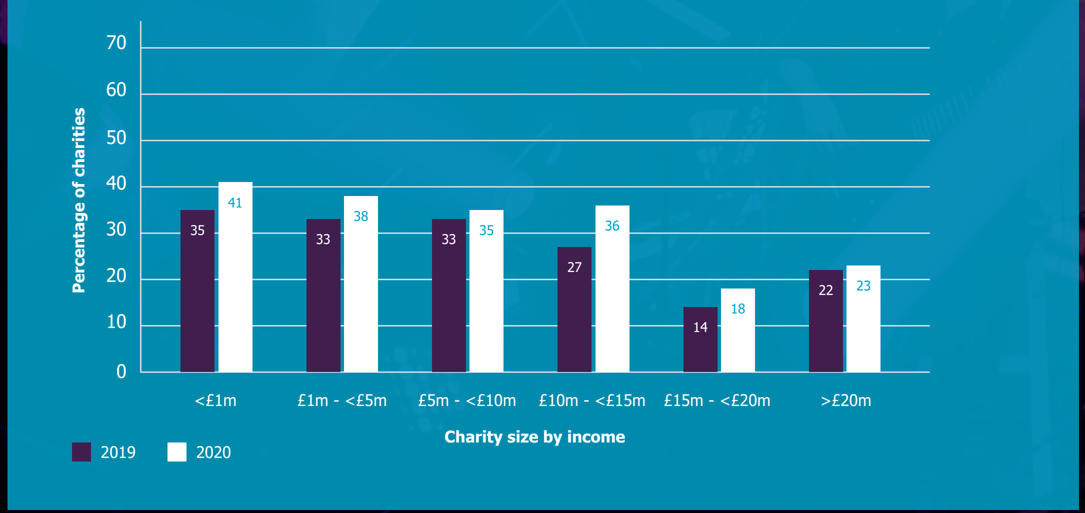
Income

The income generated by surveyed organisations has increased by 3% on average from 2019 to 2020. The main income source for the sector continues to be income from charitable activities – generating on average 46% of all income. The vast majority of organisations receive voluntary income to some extent, with an average of 33% (2019:29%) of income being disclosed as voluntary income, although 4% of organisations reported no voluntary income at all in 2020 (2019: 6%).

Income from charitable activities in the year is the most significant source of income for most organisations, and on average comprised 46% of total income (2019: 49%).

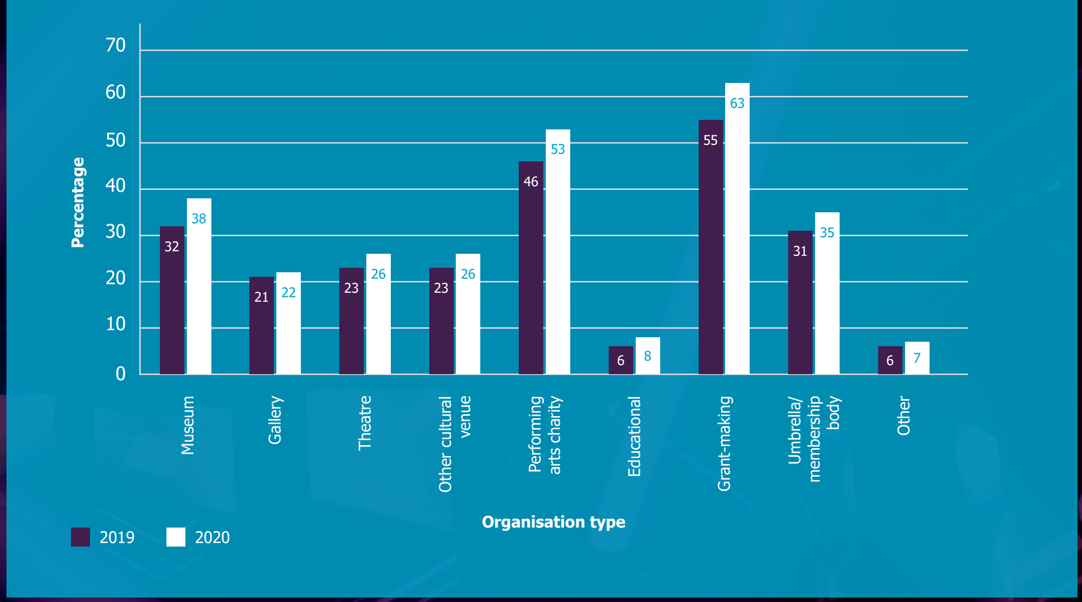
Smaller charities were found to be the most heavily reliant on voluntary income as a key source of funding, as it on average represents 41% of total income for charities with income less than £1m in 2020. The level of reliance on voluntary income reduces as charities increase in size until the £20m+ bracket, when it increases to 23%. There has been an increase in the proportion of voluntary income across the board between 2019 and 2020, with organisations of all sizes becoming increasingly reliant on voluntary income. Voluntary income as a percentage of total income has increased from 29% of income in 2019 to 34% in 2020 on average across the surveyed population. This increase is likely due in part to the initial impact of the pandemic on some of the organisations surveyed (ie those with years ending between June and December), as income from the Coronavirus Job Retention Scheme recognised as voluntary income, and the amount of income generated from charitable activities fell during lockdown restrictions.

Voluntary income as a percentage of total income by size



The categories of charity that are most heavily reliant on voluntary income are grant-makers and performing arts charities. This is not surprising, as performing arts charities are often more reliant on funding from ACE, and grant-making charities often receive a significant amount of income through fundraising. While reliance on voluntary income is not an issue of itself, relying on income from one or two key funders can bring significant risks. These risks have been brought into stark focus by the pandemic, and we are seeing an increasing number of arts and culture charities seeking to diversify their income sources.

Voluntary income as a percentage of total income by organisation type

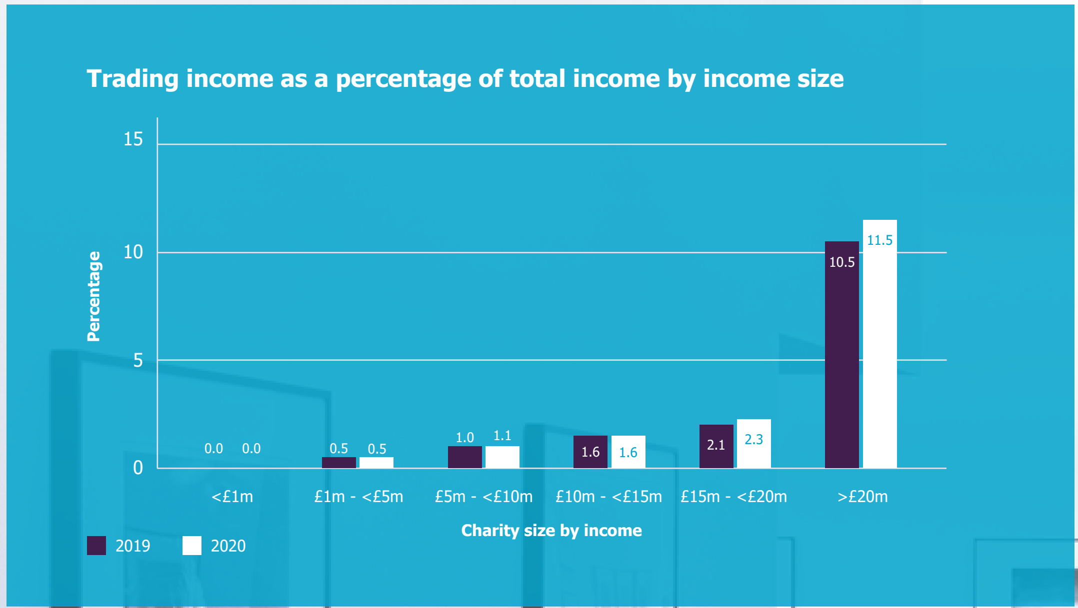


21% of the charities surveyed claimed one of the three available creative sector tax reliefs in 2020. As would be expected, the average size of claims increases in line with the size of the organisation, with charities with income of less than £1m claiming £49k on average, and those with income over £10m often claiming upwards of £600k.

ACE funding remains a vital source of income for arts organisations. 50% of organisations surveyed were in receipt of ACE National Portfolio funding, and 26% received other funding from ACE during 2020. We expect that these figures will increase significantly when 2021 data is reviewed, as 45% of organisations noted that they have received a Culture Recovery Fund grant for the upcoming year in their trustees' report.

Trading income

72% of the organisations in the survey had an active trading subsidiary and the level of trading income as a percentage of total income increases as the charity's overall income level grows. This is in part due to larger organisations often tending to be venue-based, and therefore able to generate income from monetising their venue assets for social meeting places, catering and event hires. However, overall the amount of income raised through trading is relatively low at less than 3% on average for organisations with income below £20m, and there may be opportunities for organisations to leverage this in the coming years to supplement charitable and fundraised income.



Expenditure

Despite increased income, expenditure decreased by 5% on average in 2020. Expenditure on charitable activities is the largest cost for the charities surveyed, comprising 83% of total expenditure in the year ended 2020 (2019: 79%).

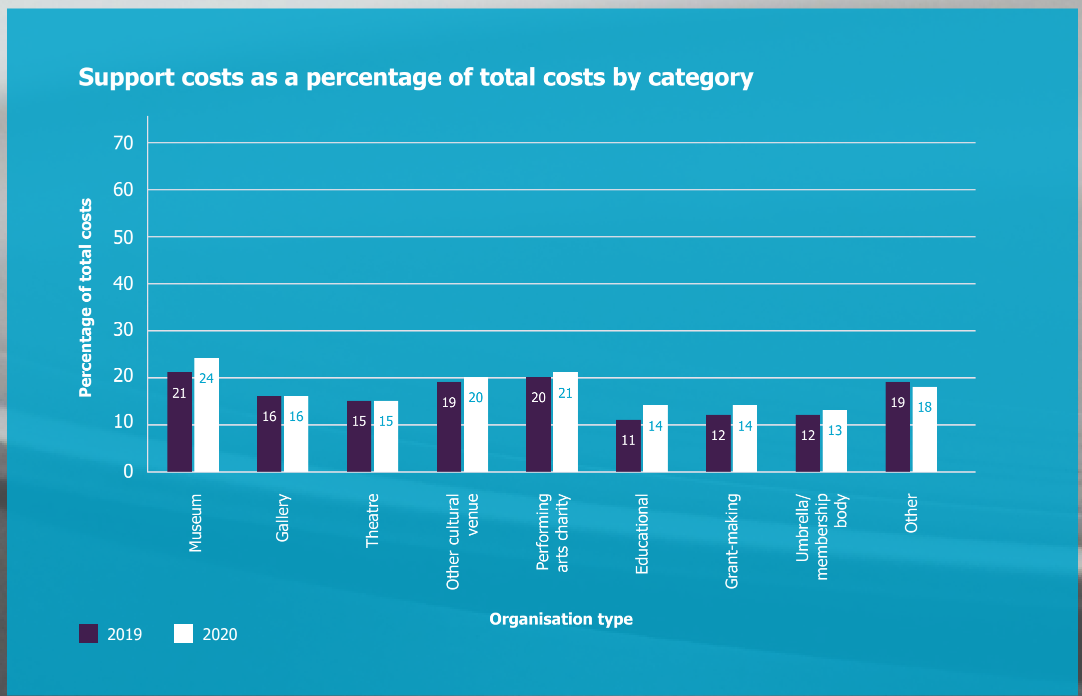
Raising funds
Total costs of raising funds were, on average, 14% of total expenditure in both 2020 and 2019. Expenditure on raising funds should include both the expenditure of any trading subsidiaries, the costs of raising voluntary income (for example fundraising team salaries and event costs) and investment management costs, as well as an apportionment of support and governance costs to recognise trustee and management time spent on these activities.

The ratio of expenditure on raising funds to total expenditure is a measure commonly reviewed by interested parties when comparing financial statements. It is therefore important to ensure that appropriate expenditure is allocated to this category and that there is either a clear accounting policy or additional disclosure describing what is included in this category.

Support costs
Support costs are those costs which are not directly attributable to one area of charitable activity. They include, for example, governance, payroll administration, IT, human resources and finance functions, office building management and maintenance and other central functions. Ratios of support to direct costs will vary significantly from entity to entity depending on the nature of the business and how its activities are managed.

Support costs are another area of that may be scrutinised by external parties looking to see how much of the charity's funds are spent on indirect costs.

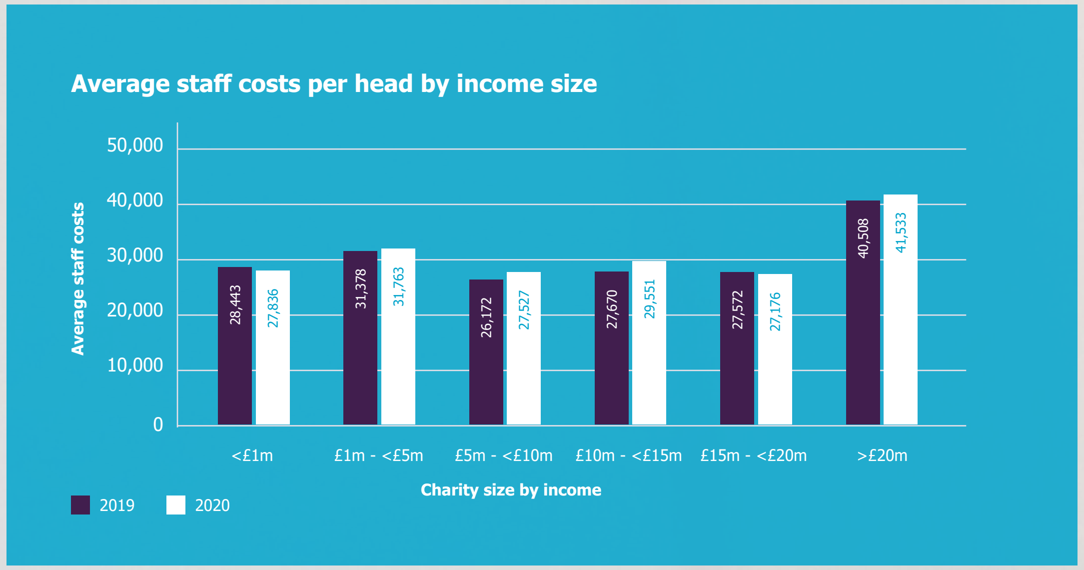
Support costs represented 18% of total expenditure on average (2019: 17%), however the range of percentages across the population was very significant, stretching from 1% to 68% across the population which we believe highlights the subjectivity in identifying and separating direct and support costs. Despite this subjectivity, it was clear to see that the ratio had increased between 2019 and 2020 for all but the 'other' category, where it remained consistent, indicating an increased financial burden on charities for covering their indirect costs.

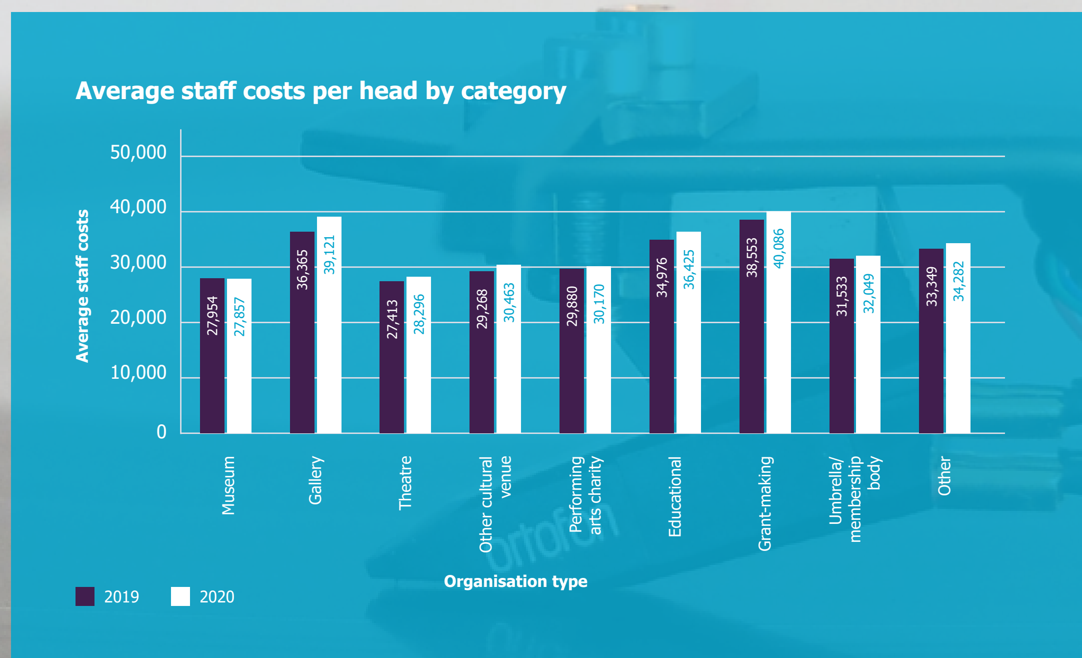


Staff costs
In 2020, staff costs were on average 39% of total expenditure, a slight increase from 2019 (37%).

The average number of staff in 2020 was 154.5 compared to 157.6 in 2019. On average, six members of staff earned above £60k in both 2019 and 2020 with this representing 4% of total staff numbers in 2020 and 2019.

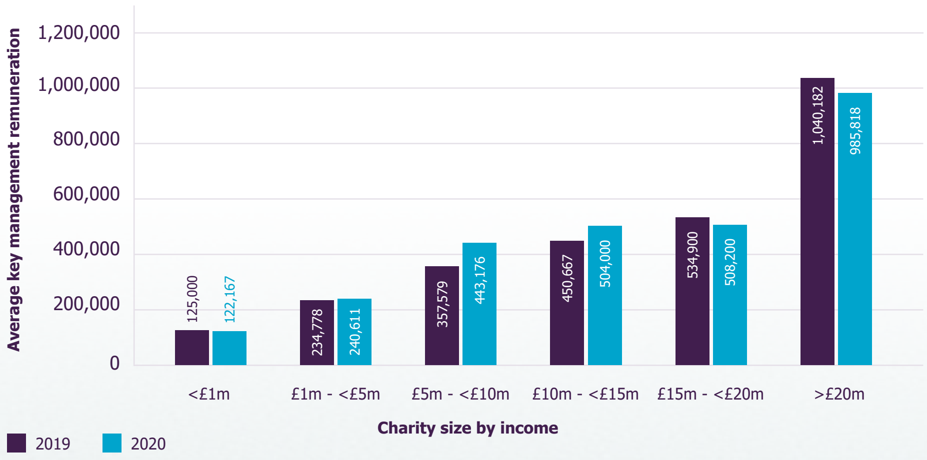
Average staff costs per head do not appear to be directly linked to the size of the charity by income until charities reach income over £20m. The average staff costs across different categories within the sector was also relatively comparable, ranging between £27,000 and £41,000. It is important to note that, as financial statements are required to include total staff numbers rather than the average full time equivalent, this data is not representative of the average amount paid to individual staff members on a per annum basis. The data presented below also provides the average cost of employing staff members rather than the average salary, and comprises salary costs, employers' national insurance and employers' pension costs.





It is a requirement of the Charities SORP to include details of the total remuneration paid to key management personnel each year. As expected, this average increases with organisation size, due to the increased size of the key management team, ranging from £125k on average for organisations with income below £1m, to over £1m for organisations with income over £20m.

Average key management remuneration by income size



The total number of staff earning over £60,000 increases significantly once organisations cross the £20m+ income threshold, however below this level the number stays relatively low and has remained consistent over both years.

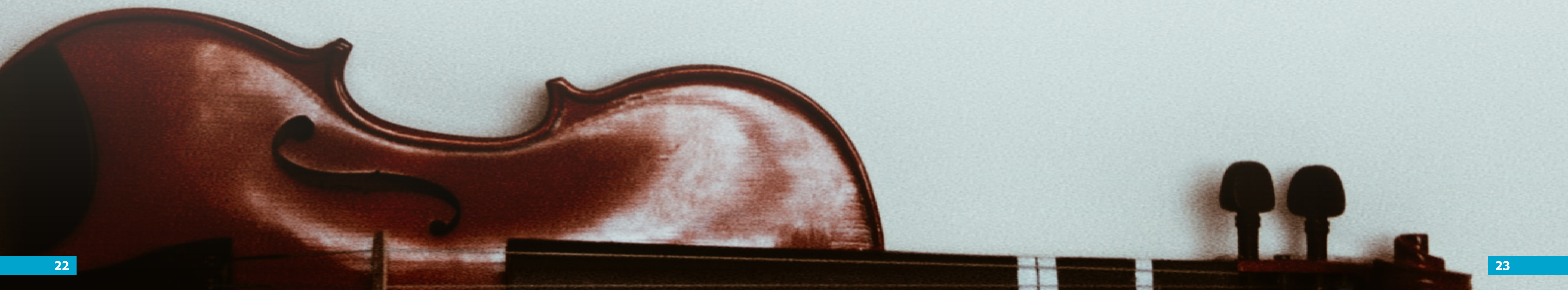
Staff earning over £60,000 by income size

Trading subsidiary costs

Trading subsidiary costs represented 10% of total expenditure in both 2020 and 2019 despite seeing a 5% decrease in value from 2019 to 2020.

Trustee remuneration

Although trustees are generally not paid for their services, in some circumstances it is possible for a charity to remunerate trustees. This is more common in arts and culture charities than in other charitable organisations, as it may be necessary for a member of the executive team to sit on the board of trustees to satisfy the charity's cultural exemption. We found that 13% 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.



Reserves, cash and investments

The level of reserves that any organisation needs in order to operate effectively varies widely, and you may well have recently revisited your reserves requirements as a result of COVID-19. Reserves policies are often created using a number of factors, such as the impact of losing key income sources, losing key staff, costs to wind up the charity, or event cancellations.

There is no 'right' amount of reserves that your charity should hold, and each charity will need to assess its level of reserves in the context of its own operations, risks, income mix and challenges. As we have seen in our data analysis, arts and culture charities have widely varied income and expenditure mixes. For example, staff costs vary between 16% and 67% of total expenditure, and premises hire and/or building maintenance costs are a high priority for many. Charities who own buildings, particularly those owning venues, will often have building maintenance and improvement plans which require funding over several financial years.

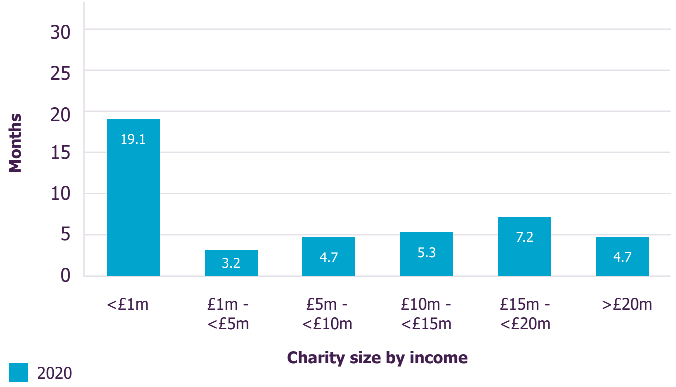
In both 2019 and 2020, only one charity surveyed reported a deficit on its funds, which was due in part to a large defined benefit pension liability. It is pleasing to note that the remaining surveyed charities with defined benefit pension scheme liabilities had net assets in both years.

37% (2019: 36%) of the charities surveyed had no free reserves – that is to say that their unrestricted funds were lower than their unrestricted fixed assets value. Most of these charities were museums, galleries, theatres and other cultural venues. This is not surprising, as charities like these will often reinvest surplus cash in improving their venue assets.

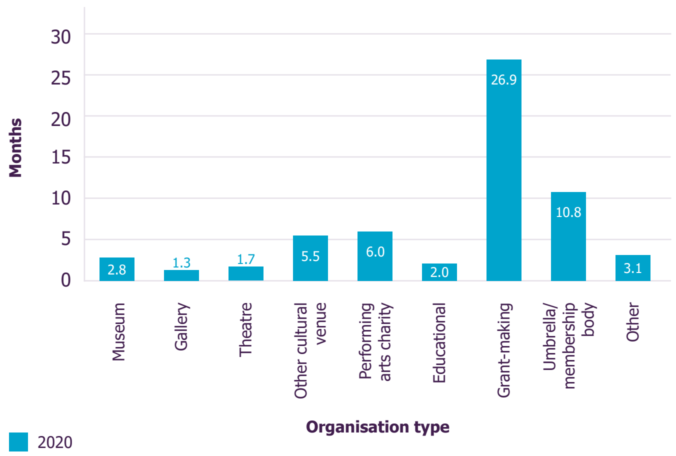
We calculated the unrestricted reserves, excluding fixed assets, held by each of the surveyed charities in months of total expenditure. We found that this was on average between 3-7 months for charities with income over £1m. The average level for charities with income less than £1m is much higher, at 19 months. This is likely to be in part because there is a minimum comfortable quantity of reserves that trustees are content to hold.

As would be expected, grant-making charities hold the largest proportion of unrestricted reserves excluding fixed assets, at over 25 months' expenditure on average. The average for all other surveyed categories is less than one year of expenditure.

Average unrestricted reserves excluding fixed assets in months of total spend by size



Average unrestricted reserves excluding fixed assets in months of total spend by category



Using designated funds effectively

In our 2018 benchmarking review, we recommended to arts and culture charities that they to use their reserves policy and designated funds to tell the charity's story. Fund designations, when used appropriately and effectively, can help you to present your funds in a meaningful way in the balance sheet, particularly when you have property or investment assets which would not normally be sold or drawn down to cover operational spend.

74% of surveyed charities had designated funds in their 2020 accounts. Common designations included funds set aside for specific future operational expenditure.

50% of surveyed charities who hold fixed assets included a designated fixed asset fund in their accounts. A designated fixed asset fund is a useful tool to show the reader how much of your reserves are tied up in fixed assets and therefore not readily available to spend.

Other uses for designated funds included artistic projects, future capital spend, and scholarships and bursaries.

Endowment Funds

18% of surveyed charities held endowment funds (2019: 18%). Endowment funds are donations given with the intention of generating an income or creating an asset for the charity to use in perpetuity. Endowments generally take the form of property or capital investments. For example, an endowment donation of £500,000 invested on deposit at a rate of 5% per annum would generate income of £25,000 per year which would be available for the charity to spend to advance its charitable purposes.

Of the charities who had endowment funds, 21% used total return accounting for their endowment funds. Since the Trusts (Capital and Income) Act 2013 came into force, charities with permanent endowments are able to adopt a total return investment strategy without seeking individual approval from the Charity Commission, and we are seeing an increasing number of charities opting to take this approach. Total return accounting allows the charity to use any increase in the value of an investment as income, subject to regulations which are explained by the Charity Commission in their guidance. This does however come with risks, and care should be taken before adopting a total return approach to ensure the future viability of both the endowment fund and the charity; as adopting the approach may provide a short-term unrestricted income boost but risk eroding longer-term endowment income generation.

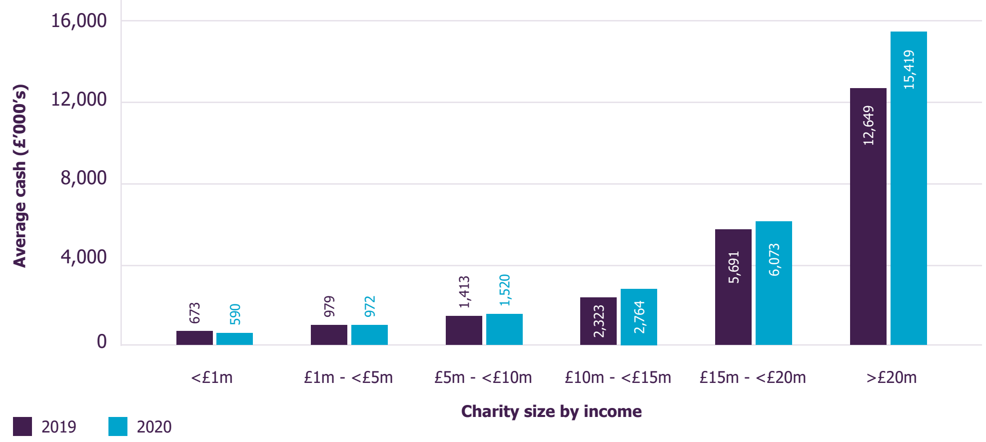
Loans

34% of the charities surveyed had loan creditors, an increase from 28% in 2019. The loan values ranged from £50,000 to £19m, and as one would expect were largely held by charities with fixed asset buildings against which loan financing can be secured. Although all the charities with loan finance held cash reserves in excess of £100,000, 70% of these charities held unrestricted funds of less than one months' expenditure in reserve, suggesting that the loans are an important factor in the charities having sufficient cash to meet their liabilities as they fall due.

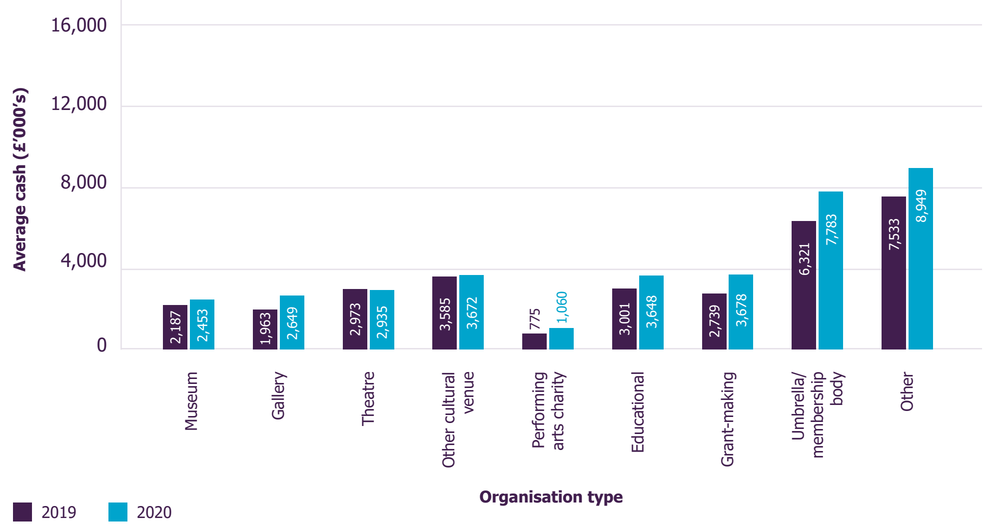
Cash

Average cash held, as listed on the balance sheet, for charities with income of £5m or less has fallen slightly since 2019. For larger charities, cash has increased slightly however overall levels of cash held by arts and culture charities remains high, and in some cases is as high as 169% of annual turnover.

Average cash by income



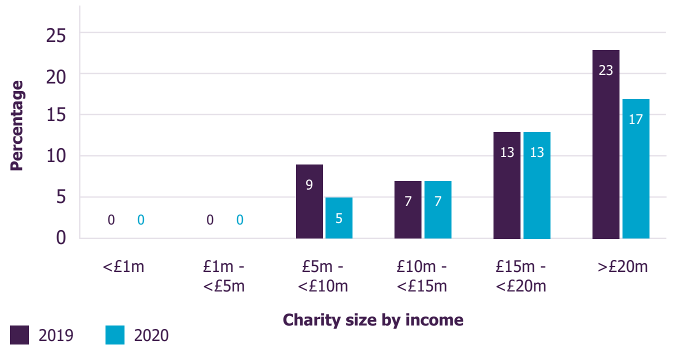
Average cash by category



As would be expected, cultural venues tend to hold higher levels of cash than performing arts charities as they are more likely to be in receipt of ticket sales in advance of events.

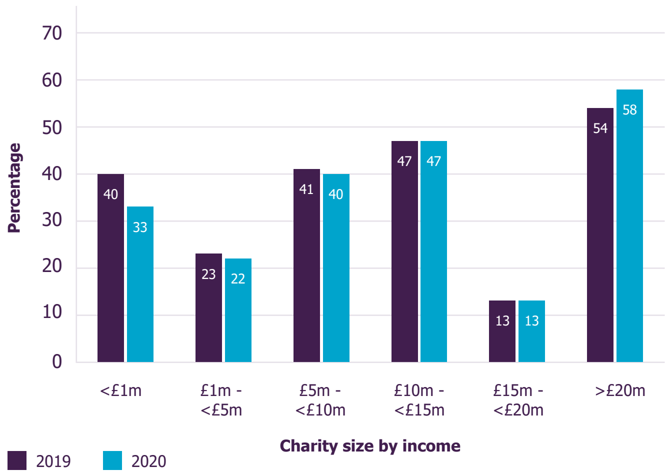
We also reviewed how many of the surveyed charities held current asset investment, which are investments with a maturity date less than one year. No charities with annual turnover under £5m in held any current asset investments in either 2019 or 2020, and of medium and large charities less than a quarter held any. There has also been a small drop in the percentage of charities holding current asset investments since 2019.

Percentage of charities with current asset investments



For fixed asset investments the graph below shows that more charities across all income levels hold fixed assets investments than current asset investments, however for all but the over £20m group this was still less than half the charities in our report. For those charities with income less than £10m there has also been a reduction in the number holding funds as fixed asset investments between 2019 and 2020.

Percentage of charities with fixed asset investments



What is interesting from the data above is that whilst cash held by arts and culture charities remains stable across each year is not insignificant, less than half of all charities in our sample are investing what appear to be surplus funds.

Investing and responsible investments

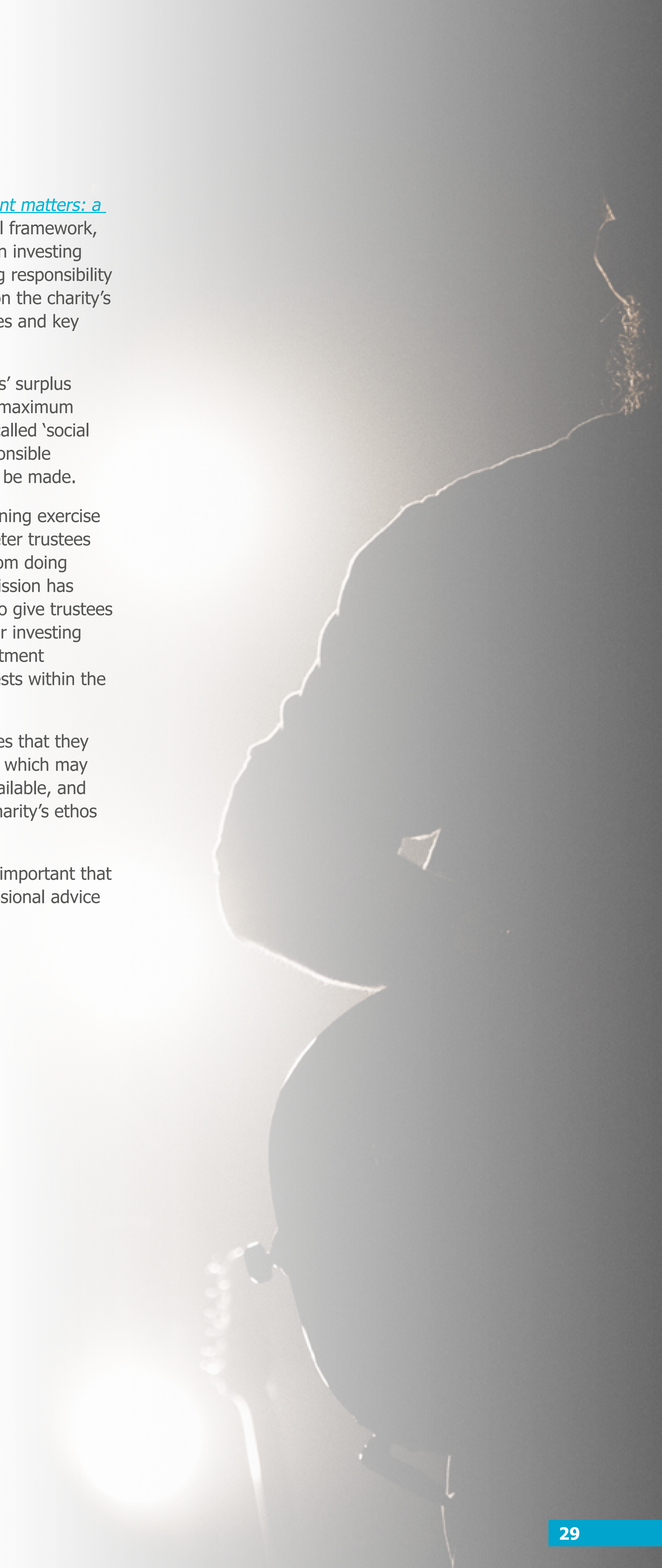
The current guidance (*Charities and investment matters: a guide for trustees - 'CC14'*) describes the legal framework, duties and discretions that trustees have when investing their charities' funds. This and the overarching responsibility for trustees to seek the best financial return on the charity's assets has been the main guidance for trustees and key management personnel until now.

Sometimes, the best investment for a charities' surplus funds may not be a vehicle that provides the maximum financial return. Other types of investments, called 'social investments' by the Charities SORP, and 'responsible investments' by the Charity Commission, may be made.

In 2020 the Charity Commission began a listening exercise to help it understand the barriers that may deter trustees who wish to make responsible investments from doing so. Following this exercise, the Charity Commission has released revised draft guidance which seeks to give trustees confidence about the options open to them for investing their charities' funds, and about making investment decisions that serve their charities' best interests within the limits of the law.

The revisions should make it clearer to trustees that they can invest surplus funds in a responsible way, which may mean not seeking the best financial return available, and rather investing in areas that align with the charity's ethos and culture.

All investments come with some risk and it is important that trustees obtain the appropriate level of professional advice before investing charitable funds.



Arts and Culture team

If you need guidance on any audit and accounting, financial reporting, statutory obligations, funding, employment tax or direct tax matter you can contact any member of our Arts and Culture team at the details below.

Partners/Directors

Jane Askew
Director
020 7969 5683
jaskew@haysmacintyre.com

Richard Weaver
Partner
020 7969 5567
rweaver@haysmacintyre.com

Steve Harper
Partner
020 7969 5608
sharper@haysmacintyre.com

Tracey Young
Partner
020 7969 5654
tyoung@haysmacintyre.com

Managers

Alex Gillespie
Senior Manager
020 7969 5540
agillespie@haysmacintyre.com

Steven Slater
Senior Manager
020 7396 4218
sslater@haysmacintyre.com

Jackson Berry
Manager
020 7151 4400
jberry@haysmacintyre.com

Alex Hallam
Assistant Manager
020 7396 4345
ahallam@haysmacintyre.com

Phillippa Stops
Supervisor
020 7396 4280
pstops@haysmacintyre.com

Tax specialists

Phil Salmon
VAT Partner
020 7969 5611
psalmon@haysmacintyre.com

Nick Bustin
Employment Tax Director
020 7969 5578
nbustin@haysmacintyre.com

Louise Veragoo
Not for Profit Tax Director
020 7969 5682
lveragoo@haysmacintyre.com

Alice Palmer
Senior Manager
020 7396 4375
apalmer@haysmacintyre.com

Jamie Whale
Senior Manager
020 7396 4369
jwhale@haysmacintyre.com

Sally Gatward
Supervisor
020 7969 5673
sgatward@haysmacintyre.com

About haysmacintyre

haysmacintyre has one of the largest charities teams in the country, and we are proud to lead our offerings for arts and culture charities and to help clients overcome challenges and achieve their goals.

Our charity team advises over 800 charities which represent 40% of our firm's annual fees. This experience has helped us to develop a thorough and in-depth knowledge of the business issues, risks and challenges charities face and how we can best support you. Our team is made up of charity specialists who are enthusiastic, friendly and knowledgeable.

If you have any questions about the contents of this report, or our services for arts and culture charities, please don't hesitate to get in touch.

haysmacintyre
10 Queen Street Place
London EC4R 1AG

T 020 7969 5500
F 020 7969 5600
E marketing@haysmacintyre.com

www.haysmacintyre.com
@haysmacintyre

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Top adviser to the top 5,000 charities, Charity Financials' league table 2021

Top ten by audit fees in the 2020 Charity Finance Audit Survey