haysmacintyre

INTERNATIONAL CHARITY FINANCIAL BENCHMARKING REPORT

2022

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Introduction

We are proud to introduce our fifth annual benchmarking report on international charities based in the UK.

The sector and our associated reports over the last two years have been hugely impacted by the COVID-19 pandemic. As we transition from these unprecedented times, we note common themes to consider which are explored in this report.

The pandemic has forced most organisations to rethink and plan for the future. Whether it be the way of delivering services to stakeholders, or a hybrid approach to events and operations – essentially utilising lessons learnt over this period and applying them going forward.

As we move into the next strategic period for many international charities, new challenges present themselves to the sector as well as continued risks such as fraud and safeguarding. Following the floods in Pakistan and the Ukrainian humanitarian crisis, the risk of fraud for not only overseas charities, but charities in general, remains wide reaching and continues to increase in sophistication. We continue to urge trustees to revisit and continually monitor their policies and procedures to mitigate the risks of fraud, and ensure safe transfer of monies across borders.

Safeguarding remains a key area of focus of the Charity Commission and their guidance is continually updated to reflect the current climate and the importance of managing this risk. The impact of the pandemic will leave lasting effects on the sector, and with current budget cuts both from central government coupled with the cost of living crisis, balancing sufficient resource in this area delivering against your objectives is a challenge – no matter your size.

The Government departmental merger and overseas aid cuts have led to some charities seeing a substantial reduction in institutional funding, or at best significant delays to funding being made available.

These challenges are all amongst the general economic climate of rising inflation and difficulty in recruitment, balanced with growth and diversification. At the other end of the spectrum, some organisations have had a relatively successful year, with fundraising holding up well and even increasing in some cases. Continued guidance and updates from the Fundraising Regulator is important to consider, particularly as charities adapt their approach.

In addition, many have been able to successfully diversify and replace lost government funding with that from other providers.

The need for international charities and the work they undertake remains substantial. With many organisations having now achieved short-term survival throughout the pandemic, we are seeing a renewed focus and a huge discussion on reserves, more specifically risk-based reserve policies. Charities should ensure their policies are sophisticated and strategy driven to cover both key risks of the business and changes for the benefit of beneficiaries.

This report continues to consider a selection of the areas that we, in our experience, see as the most significant in achieving good financial governance for an international charity. These include risk, fundraising, reserves, and value for money.

We do hope the results of this report will be useful, along with helping to inform debate.

We also hope that our findings will help you to benchmark your own organisation against your peers, in addition to supporting the sector in adopting best practices for the future. As in previous years, we welcome feedback on our findings and on the contents of the report, as well as suggestions for future publications.

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Methodology and overview

This report examines the accounts of a selection of the UK's international charities, organisations that are based in the UK but have a primary international focus.

As in previous years, we have continued to focus on charities that have an income of more than £500,000. Our review incorporated 181 charitable organisations, the majority of which were included in last year's research. Where a charity's income falls below £500,000 in both the current and prior year data, it will be replaced within the sample in the following years benchmarking.

The most recent accounts were obtained from Companies House where appropriate (October 2022). Those accounts cover accounting periods ending between 31 December 2019 and 31 December 2021. The sample includes organisations with a total income of £6.7bn. All information has been taken from publicly available accounts and, as last year, we have not sought to verify this information or enhance it with any supplementary enquiries.

We have taken the information disclosed in the Charity Commission or Companies House data at face value. However, in certain instances where the information disclosed is not clear, we have made assumptions when analysing the data. There is a wide range of charities included within the sample, deploying a variety of operating models. In the following pages we have distinguished charities based on the size of organisation, but not the operating model.

For the purpose of this analysis, we have categorised the entities included in the following income brackets: less than £2m (42); £2m - under £10m (63); £10m - under £50m (47); and £50m and over (29). 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 measure we could have used.

INCOME

There was an average decrease in income of 4% comparing the most recent sets of accounts. Whilst the average across the sample was a decrease in income, 51% of organisations recorded an increase, and 69% of organisations recorded an overall surplus for the year. This is an improvement compared with last year (61% recording a surplus).

Risk

Charities carry out many activities within their organisation. Arguably, one of the most important roles for the charity's trustees and management team, is that of effective risk management to both sustain the future of the organisation and fulfil its set objectives. As new strategies are implemented post pandemic, we are seeing a renewed need to focus on areas such as Brexit, income mix, funding in general and the cost of living crisis.

In our most recent *International Charities Briefing*, we discussed a move towards a third dimension of risk assessment, risk velocity, which details the speed at which exposure to a particular risk can have an impact on a charity.

All charities face risks which can affect their ability to deliver their work, finances, reputation, and most severely, the safety of their own teams or those who they support.

This year, charities have managed the consequences of the pandemic, as well as the reduction in the UK's international aid budget.

In this context, our research points to a relatively flat number of risks that charities have reported on, reduced to 4.4 on average (2021: 4.6).

Organisations by average number of risks reported

When we examine these figures in relation to the size of charities, we see that it is among charities with an income of less than £2m where decreases in the number of risks reported is most significant.

There is an upward shift in the number of principal risks reported. Only four charities reported a single risk (down from five organisations last year), whereas 21 reported nine or more – a rise from 14 last year.

Organisations by number of risks reported

WHAT WERE THE PRINCIPAL RISKS REPORTED IN ANNUAL REPORTS?

Just like prior year data, the most commonly reported risk continues to be future funding and fundraising, with the same number of organisations reporting on this in 2022 and 2021.

This year, a higher number of organisations cited COVID-19 as a key risk, which is reflective of the timespan of the reports in our research, with the majority covering a period since the pandemic began to impact the sector. We would expect this figure to start to decline in future reports.

The risk cited third most often was safeguarding – an area which shows an upward trend with 79 mentions in 2022 compared to 73 in 2021. We also found an upswing of IT related risks, rising to 55 instances from 52 in 2021.

Fundraising

This year's report comes at a time between the lasting impact of the DfID and FCO merger, the COVID-19 pandemic, and the expected drop in voluntary income expected as a result of the cost of living crisis. Past recessions have typically resulted in a decrease in donations to the voluntary sector over a two year period.

The decrease in reliance on institutional funding means charities are now having to implement a flexible financial model with emergency appeals and look towards other funders.

We saw the proportion of voluntary income for organisations stable this year, with 50% of income being disclosed as voluntary, down from 58% last year. We found that most income brackets decreased their reliance upon voluntary income, with those in the £2m - under £10m bracket showing the greatest decrease, reporting voluntary income at 53% compared to 66% in 2021.

Interestingly, the largest organisations (over £50m bracket) actually reported a slight increase in their proportion of voluntary income – at 54% in 2022 compared to 52% in 2021. This suggests that government funding cuts have hit smaller charities more than larger ones, or that larger charities have been able to pivot to other funders more quickly.

COST OF FUNDRAISING

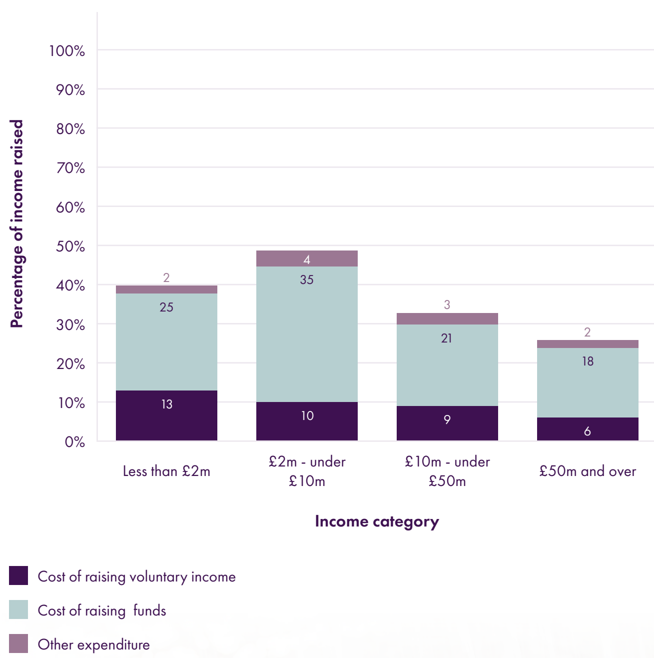
Our research in previous years has shown gradual increases in the cost of raising funds (when compared to the actual funds raised). This year we have noticed a continued trend, with the cost of raising funds increasing by between 0-2% for charities in all income bands.

These figures showed a small decline last year, likely driven by a temporary shift to higher return on investment fundraising tactics, such as effective emergency appeals, and the streamlining of other forms of fundraising such as fundraising events. As the world re-opened post-pandemic and large-scale events returned, it seems that fundraising costs have returned to increased levels.

Cost of raising voluntary income as a percentage of income raised

It can also be useful to look at the percentage of an organisation's spend on charitable activities – this does not include cost of fundraising or other disclosed expenditures. Our research found that international charities spent 88% of the total spend on their charitable activities – consistent with the 88% shown last year.

Analysis of Expenditure



FORMS OF FUNDRAISING

For many organisations, there appears to be a real focus on updating CRM systems (as mentioned in our report last year) which will be vital during the cost of living crisis. The pandemic has also provided opportunities to harness online events and appeals, allowing charities to adopt a more hybrid approach ensuring a balance is achieved between stakeholder engagement virtually and in person.

REGULATION

With the recent floods in Pakistan and the humanitarian crisis in Ukraine mentioned above, the Fundraising Regulator continues to update their guidance for both donors (ensuring safe giving) and charities (with regards to online appeals/ events). The foundation for these updates continues to be the change to the regulation in 2016 where charities were required to include information on any fundraising practices in their trustees' report, as per Section 13 of the Charities (Protection and Social Investment) Act 2016. This regulation was introduced to ensure charities were undertaking appropriate fundraising techniques, and to avoid vulnerable donors from being approached by charities excessively.

The Charity Commission has also recently published research into public trust in charities, which it has been tracking since 2005, and about public views on transparency data used in the sector. The data on public trust suggests that trust in charities has increased, but with varying levels of trust in different types of charities, higher trust is given to charities the public feel 'connected' to; with smaller grassroots charities receiving higher levels of trust than larger corporate and international charities.

Reserves

The events since the start of the pandemic and the expected impact of the cost of living crisis have led to increased discussions on strategy, investment into infrastructure (both staffing and systems) and whether your current strategy is fit for purpose.

In the sector, you may have heard of the three-bucket approach: funds you definitely need liquid; funds that are open for investment; and those in the middle that you might need/might not need, dependent on strategy and risk. This approach will allow charities to carefully manage both cash flow and reserves.

We continue to see a trend of charities adopting a risk-based reserve policy, leading more often than not to an unchanged policy. However the impact of the recent Butler-Sloss case may mean investment returns, and financial strategies might be impacted by investing in funds that deliver a lower than sector/market rate of return as a result.

Historically many charities have linked their reserves policies to their expenditure. In recent years, we have seen a positive trend towards charities considering risk based policies.

Of those organisations in our sample, none showed a deficit in their total reserves this year – a figure that has remained stable from our research last year. Similarly, those organisations that show a deficit in their unrestricted funds – namely, the funds which can be spent freely by the charity – remained largely unchanged from the previous year's research, at two in 2022 and three in both 2021 and 2020. While this stability could indicate that many charities have done well to mitigate the challenges faced over the past couple of years, it could also be that some organisations' reports do not yet reflect the full impact of the pandemic.

FREE RESERVES

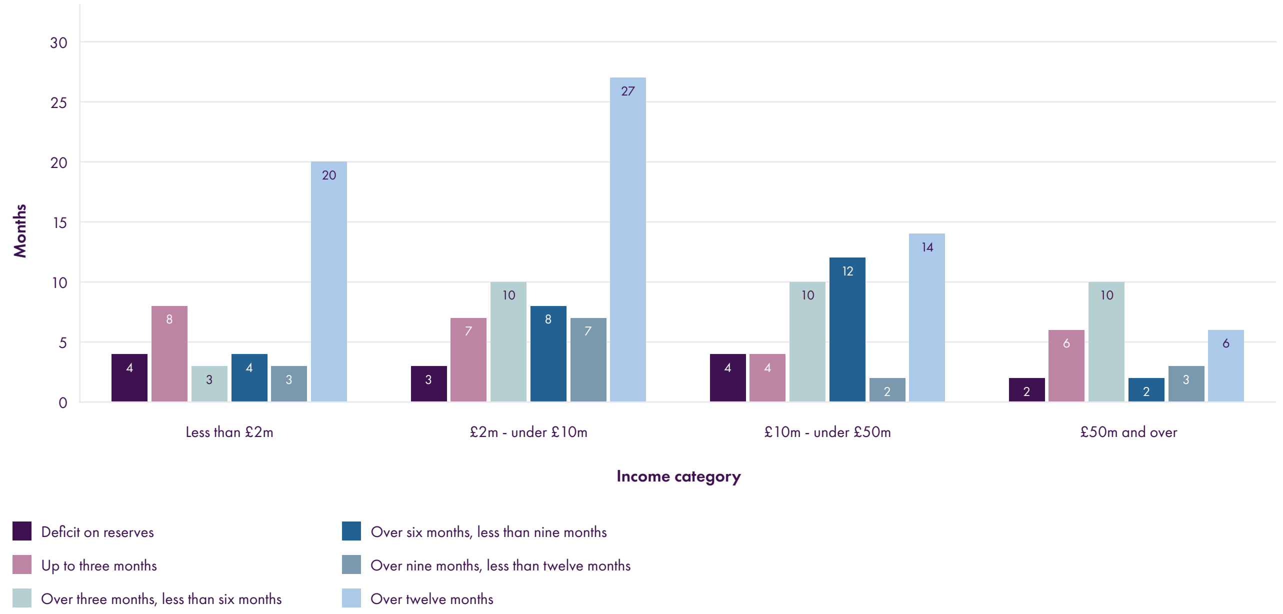
Our research over the past five years has found that the level of reserves held by different charitable organisations can vary greatly, with some holding a few months' worth of reserves, and others several years. As in our previous research, we compared organisations reserves by measuring their free reserves specifically.

To ensure a consistent approach, we looked at each organisation's unrestricted funds (to include any designated funds) and removed any unrestricted fixed assets from this figure – this showed us their free reserves. These figures for free reserves were then compared to each charity's unrestricted expenditure for the current year.

Contrary to the previous year, our 2022 research found that more organisations showed a deficit in their free reserves, at just 7.7% of our sample (14 organisations) – up from last year (4.4%/eight organisations).

There was an increase year on year in those organisations with free reserves equivalent to one month or less of unrestricted expenditure. In our 2022 research, 11.6% of our sample reported reserves equal to this amount of expenditure, compared to 11.1% in 2021. Similarly, we saw an increase in the number of organisations that reported over one year of unrestricted expenditure in reserves. This year, 36% of charities showed free reserves equal to one year or more of unrestricted expenditure, compared to 33% in our research last year. Furthermore, our 2022 findings indicated that 13% of charitable organisations hold free reserves equivalent to over two years of unrestricted expenditure – a decrease on 17% in 2020.

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



Overall, the average level of unrestricted reserves across organisations of all sizes increased this year, reaching the equivalent of 13.7 months of unrestricted expenditure – up from 10.6 months in 2021. This year, the mid-sized (£10-50m income) organisations in our sample showed the largest average level of unrestricted reserves, at 15.9 months this year compared to 11.1 months in 2021. Conversely, those organisations with income in the <£2m - brackets saw the levels of free reserves fall this year, at 12.2 months from 14.8 months. Nevertheless, it is worth noting that within each income group, there are significant variations in the level of free reserves held.

UNRESTRICTED FUNDS AND TOTAL EXPENDITURE

Alongside unrestricted funds, which can be used for any purpose, many charities receive restricted funding. These funds are restricted by the donor to be used for a specific project or cause, and thus are not considered part of a charity's free reserves.

In theory, the level of restricted funds available should be sufficient for the planned restricted expenditure. However, in reality it's not so straightforward. For example, if a charity's long-term grant funding were to end, and additional restricted funds could not be found to replace the lost income from the grant, the organisation may opt to use unrestricted funds for the project.

We therefore also consider how the level of unrestricted funds compares with months of total expenditure – factoring in those occasions where restricted funds cannot fully cover the specific purpose they are for. To do so, we calculated organisations' unrestricted reserves using the same method as in the previous section and compared this to total expenditure (as opposed to unrestricted expenditure).

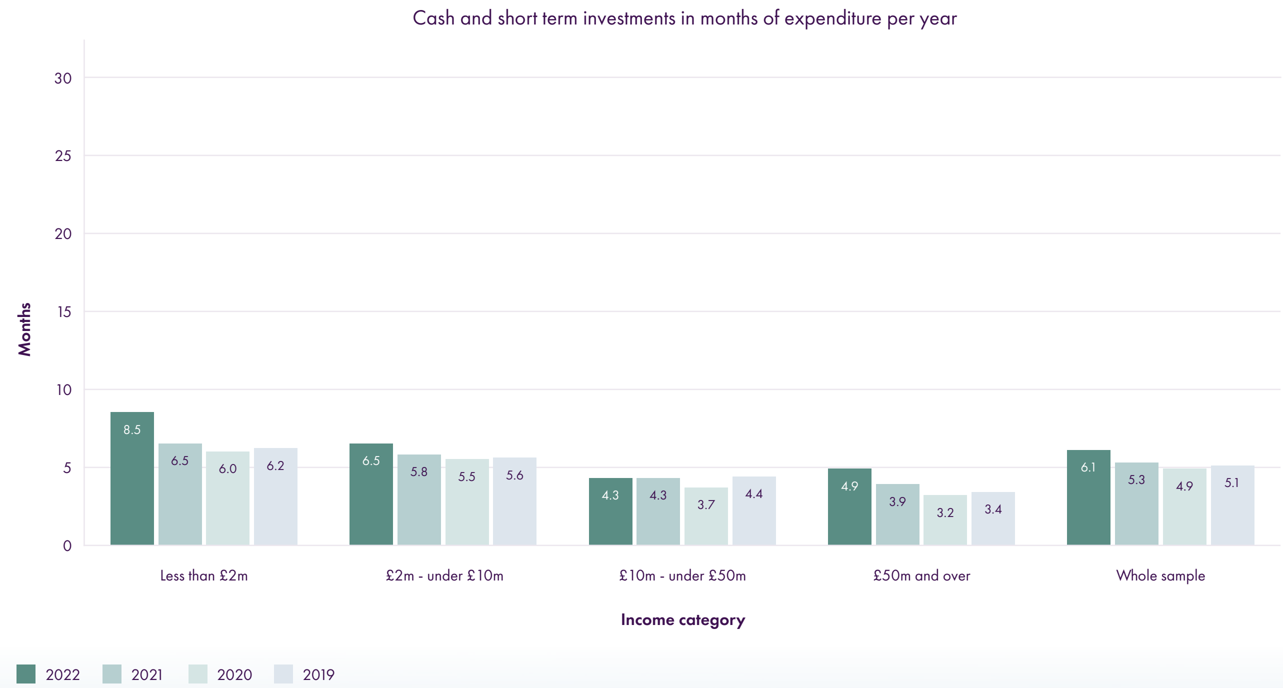
Our research found that 30% of organisations held unrestricted reserves that could cover the equivalent of one month or less of total expenditure – a small increase on last year's figure of 29%. This highlights the need for organisations to ensure they fully understand the nature of their restricted funding – namely, what it is used for and if it is likely to come to an end – and put plans in place to cover the funds should the restricted income cease.

CASH HELD

Against the backdrop of a challenging year, the need to hold sufficient cash alongside effective management of total reserves has become ever-more important for charitable organisations. With international charities in particular facing difficulties with cash flow management across multiple locations, or with some donors paying in arrears, cash has typically been an area of concern for the sector.

However, our research this year revealed that the average level of cash held was equivalent to 6.1 months of expenditure – an increase from 5.3 months the previous year. Similarly, when factoring in any long-term investments, the average level increases to 7.2 months, up from 5.9 months in 2021. This year we noted a small number of organisations (3.3%) holding cash sufficient to cover less than one month of expenditure, which was a decrease compared to last year (4.4%).

As in previous years, smaller organisations held more cash proportionate to their spend than their larger counterparts – an unsurprising finding, given the likelihood that the largest charities tend to have a wider range of income streams and more resource for effective fund management.

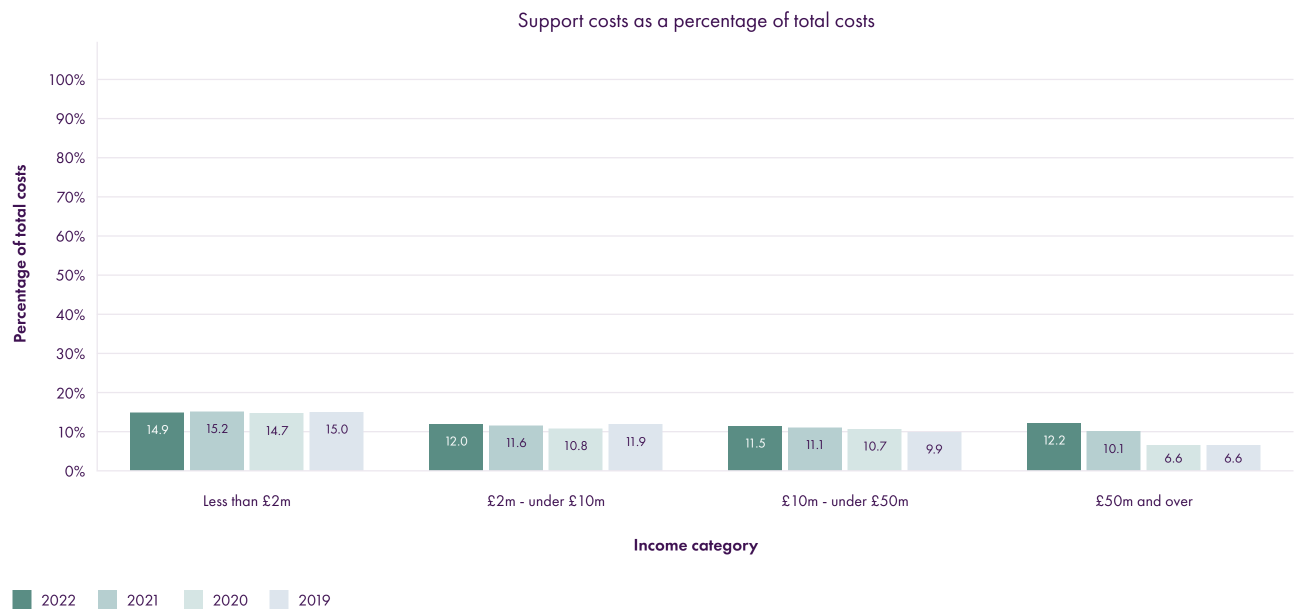


Support and governance costs

For most charities, keeping support costs as low as possible continues to be a significant challenge. Many charities often use this as a benchmark to measure themselves against their peers, but from our experience, it can be difficult to obtain an accurate reflection as different organisations take different approaches to how they allocate costs within their accounts.

It is vital for any organisation to have an accurate understanding of its costs. When this is done effectively, it can help keep costs to an appropriate level and ensure that its costs are used as efficiently as possible.

There has been a slight increase in the average level of expenditure that relates to support costs, rising from 12% last year to 13% in 2022. In a similar guise to previous years, the data shows that smaller organisations proportionally spend more on support costs than larger charities. As a general rule, support costs decrease as the organisation grows in size, likely due to the increased economies of scale that larger organisations operate within.



Our research shows that charities with a reported income of less than £2m have support costs averaging 15% of their expenditure. This is in comparison to charities with an income of £50m and over, which reported support costs average just 12% of total expenditure, although this is up on the average of 10% that this group reported last year.

As in previous years, governance costs remain substantially lower than support costs as a percentage of total expenditure, falling slightly from an average of 1.1% last year to 1.0% this year.

OVERHEAD COSTS RECOVERY

Whilst maintaining a strong knowledge of an organisation's costs is one challenge for charities, the recovery of support costs from funders is perhaps an even more significant obstacle that organisations face. Organisations that are primarily supported by institutional donors may face significant challenges in recovering support costs whilst at the same time being reliant on such cost recovery.

Annual reports

Many charities treat their annual reports as a communication tool that fulfils objectives above and beyond the statutory requirements. Our research highlights the wide variety of length, style, and scope of annual reports in use in the sector.

LENGTH

Across charities of every size, reports are getting longer. The average length this year is 57 pages, up on the figure of 56 last year. This is illustrative of the fact that the statutory requirements on charities are growing in terms of what their reports must cover. Furthermore, we are seeing an increasing trend of charities adopting optional disclosures in areas such as: safeguarding; environmental matters; and equality, diversity, and inclusion.

Where charities have pressing issues to address, an example over the last two years being the impact of COVID-19, they must include this in addition to other elements of the report.

This year the shortest report we reviewed was 19 pages, five of which were the trustees' report. The longest was 156 pages (of which 98 were the trustees' report). On average, the trustees' report made up 27.8 pages, a very slight increase on the figure of 27.5 in 2021.

Our data indicates that the length of reports is reflective of the size of organisations, with the largest charities publishing the longest reports.

A POWERFUL STORY TO TELL

A personal introduction or report from the chair or chief executive is not a requirement, but we advise that it can be a powerful tool for charities to 'set the scene' and deliver a narrative that conveys their passion and commitment, major achievements, and gratitude to their funders and volunteer base.

This message seems to be one that the sector is embracing. We've seen an increase this year in the number of organisations using a chief executive's report, increasing from 37% in 2021 to 42% this year. There has also been a rise in the number of charities using a chair's report, from 60% last year to 61% this year.

A THOUSAND WORDS

We reviewed how charities choose to illustrate their reports with graphs, infographics, and pictures. While over half (52%) of those we reviewed use pictures, that figure falls to 39% for graphs and 50% for infographics. Reviewing the figures for the use of these visual elements of the report against the size of organisation reveals that large charities are likely to use one or more of them.

BEYOND STATUTORY REQUIREMENTS

Charities are fulfilling a statutory requirement when they publish their report, but the majority of charities regard this document as a tool for achieving more than simply ticking a legal box.

Titles and terminology in relation to content can vary and there is often an overlap between the type of material covered in documents variously referred to as annual reviews or impact reports.

This year we have seen a steady number of organisations including a section on safeguarding in their trustees' report: 52% compared to 52% last year. Our usual advice to charities is that, although not required, considering safeguarding in the annual report presents the right message regarding how this important issue is being handled by the organisation.

The Charity Governance Code (the Code) was launched in 2017 and we have seen many charities, especially larger organisations, reference the Code within their report. This year it was mentioned by 52% of organisations, up from 45% in 2021.

The trustees and their committees

As part of our research, we have considered the average size of the board of trustees, which increased slightly from last year's level of 9.2 individuals to 9.3 individuals. The smallest board of trustees within our sample consisted of just one individual, whilst the largest trustee board consisted of 29 individuals.

Of the organisations sampled, 8.2% had a trustee board consisting of fewer than five individuals, marginally down on the 8.8% of organisations that did so last year. In comparison, 5.5% of charities had 15 or more individuals as part of their trustee board, up from 4.4% last year.

As our previous research has shown, the average size of the trustee board tends to increase as the size of the charity increases. However, this year the gap between the size of trustee boards of the largest charities and the size of the boards for the smaller organisations has narrowed.

Organisations with an income of less than £2m averaged eight trustee board members, whereas the largest charities in our sample had an average board size of nearly 12 individuals.

Trustee boards are increasingly making use of committees as a key strategy to help manage the charity. Our desktop research found that 80% of the charities sampled disclose the use of one or more committees within their annual report. However, it is likely that there are further committees that are not referenced.

Within the annual reports, there is a varying degree of disclosure on the use of committees. Whilst some organisations only acknowledge the existence of a particular committee, others set out the detail of a committee's composition, its role within the overall governance structure, and its work during the year.

18% of charities disclosed the use of one committee, with a further 19% disclosing the use of three committees and 19% disclosing two. The number of charities reporting no committees has reduced very slightly from 24% last year to 20% this year. From our research, the single most common committee utilised is a Finance Committee.

Average number of trustees

Conclusion

Since our last report, the full effects of the COVID-19 pandemic and its impact on international charities has become much clearer. Considering the time period that this year's research has covered, it is understandable that charities have noted the pandemic as a key risk that they have faced.

However, it's not just the pandemic that has challenged charitable organisations in the last 12 months. The merger of DfID and the FCO and the cut to the foreign aid budget have been another significant event that have had significant consequences for the funding and cash flow of many charities. It is common for the impact of such events not to be fully felt for one or two years and with the lag in time between impact, reporting and then compilation of our benchmarking the full effects of the pandemic may not be seen until our report next year.

Despite this unprecedented set of challenges that charities have faced, it has been positive to see large-scale emergency appeals in the last year proving both effective and cost-efficient for some organisations in the sector. Our experience is that the fundraising landscape for many international charities remains challenging and this may require different solutions such as new forms of fundraising or consideration of mergers.

2022 has brought a new set of challenges - the war in Ukraine, rising inflation and the cost of living crisis - which are all likely to have a significant impact on the finances of international charities, and that the work of international charities will remain a vital element of our society.

Overall, it has been pleasing to see international charities continue with their vital work over the course of the last 12 months. On the whole, they have shown that they are both resilient and adaptable, proving that they are able to continue delivering their crucial output even in times of crises. With international charities having again shown their value and worth in 2022, it will be fascinating to see what the next year has in store.

About haysmacintyre

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

haysmacintyre is a co-founder and co-owner of the MSI Global Alliance, an association comprising over 250 independent legal and accounting firms operating locally in over 100 countries around the world. Collectively MSI firms represent nearly 13,000 lawyers and accountants in over 100 countries. This is a very important part of our business and helps us to support clients working internationally and to provide services to our clients across the world through a central contact in the UK.

Our International Charity Financial Benchmarking Report is produced annually from the public accounts of international charities.

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

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