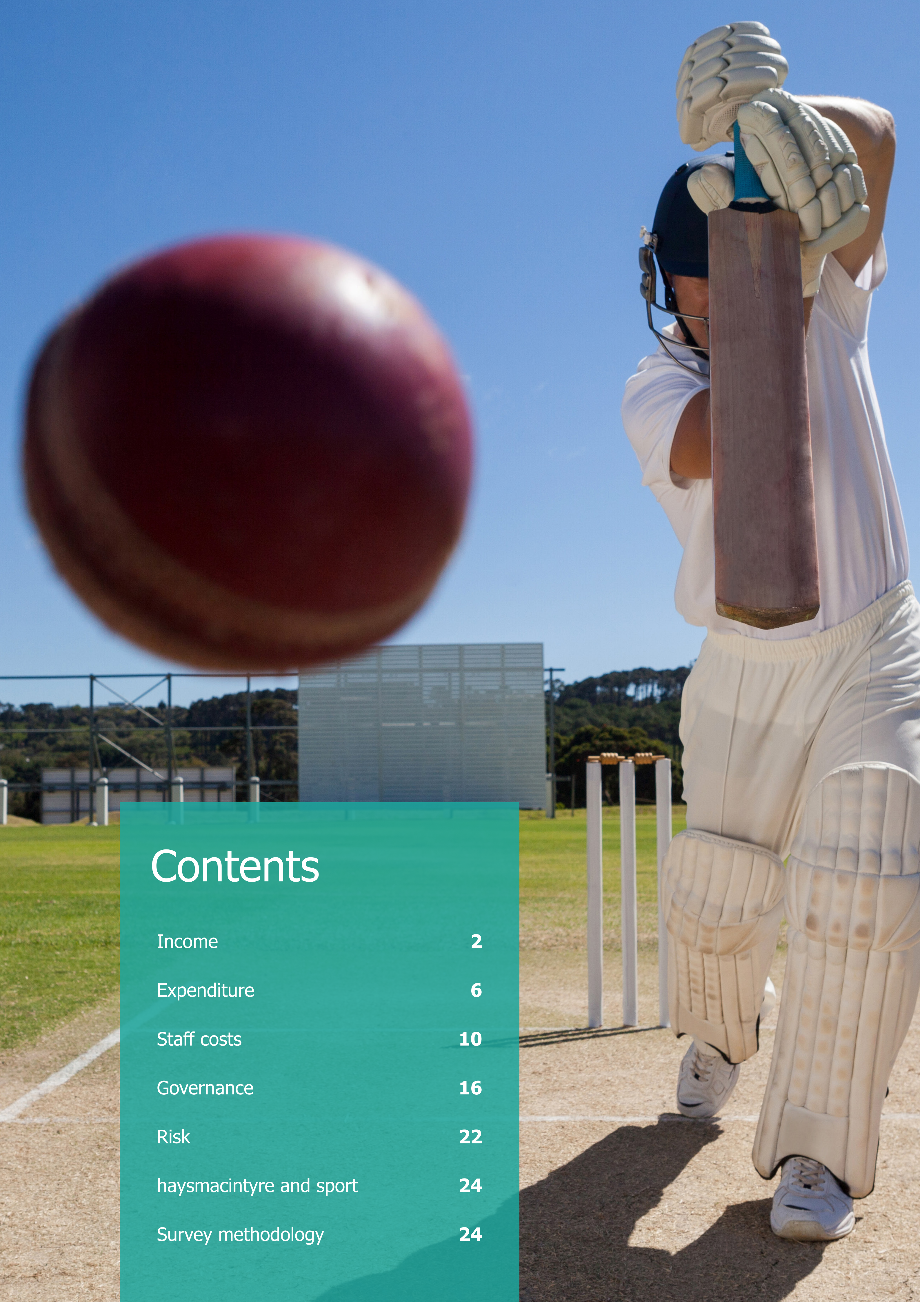
haysmacintyre

NATIONAL GOVERNING BODIES
Benchmarking Survey Report 2020



Contents

Welcome from the editor

Welcome to haysmacintyre's sixth annual UK National Governing Bodies (NGBs) benchmarking survey.

Based on detailed responses from 15 organisations across the sector, our survey offers detailed management information against which NGBs can benchmark themselves, that reveals trends both in financial performance and governance, and highlights what the sector perceives to be the key threats for the future.

COVID-19 has dominated the landscape across our sector this year. Due to the current pandemic, some organisations have struggled with resource to complete the survey and there are fewer participants than usual. This will need to be considered as you analyse the results. It is also worth stressing in most cases the information is from the last reporting period, generally being 31 March 2020. This was obviously the early stage of lockdown, and it is a challenge for this report to ensure information is relevant in a completely changed world. To do this we have refocused the commentary on what it may mean now. We also specifically asked participants COVID-19 related questions for the survey to remain current and relevant. Inevitably, as you read this with the pace of change this year, things move on quickly and again this should be considered.

The report covers key areas of income, expenditure, governance, and risks, interwoven with the impact of COVID-19 on these areas.

We have reported in the last few years slight uplift of commercial income in the sector. For the year to March 2020, this was relatively static. NGBs have been trying to diversify revenue away from public funds for some time. The impact of the pandemic is twofold, it has caused greater reliance (at least in the short term) on public funds. Secondly, those who have had greater success in moving away from public funds have been the ones most impacted by the pandemic. We have looked at the likely impact on surpluses in the sector this year and the vast majority (60%) are reporting that they are likely to make a loss this year.

In terms of expenditure, we have looked at spend in specific areas which may need to change as the sector transitions to the 'new normal'. Areas such as IT investment and premises costs in a potentially changing work environment have been looked at. We have included usual staff costs information in the survey, but this should always be taken with caution as the NGB sector is spread all over the country and location significantly impact the results.

The figures for Black, Asian and Minority Ethic (BAME) representation on boards have not progressed significantly and although many organisations have been working hard to make changes, the sector will need to reconsider how best to move forward in this area. This is likely to be a major focus of the next iteration of the Sports Governance Code (the Code) and organisations should see this as a priority.

We asked NGBs to specify the issues they consider the biggest threats for the future, it is no surprise that many related to COVID-19 and the impact of it. We have itemised these into constituent parts and not as a 'COVID-19' specific section per se. The three top issues included lack of diversification in income (exacerbated by the pandemic), losing membership which for the first time was very high and potential loss of funding. There will also likely be a long-term risk to public financing given government spending this year.

As ever, we hope you will find our report a useful resource for your management teams. Our sample spans very large NGBs with significant budgets, through to smaller organisations, a point worth bearing in mind when comparing your own data to our averages.

Looking ahead, if you would like to suggest topics for us to examine in our 2021 report, or if you would like to participate in the survey next year, please don't hesitate to get in touch.

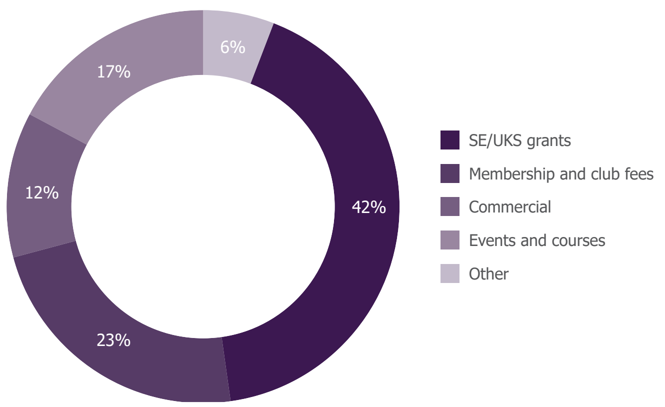
Tom Wilson
Partner
020 7969 5697
twilson@haysmacintyre.com

Income

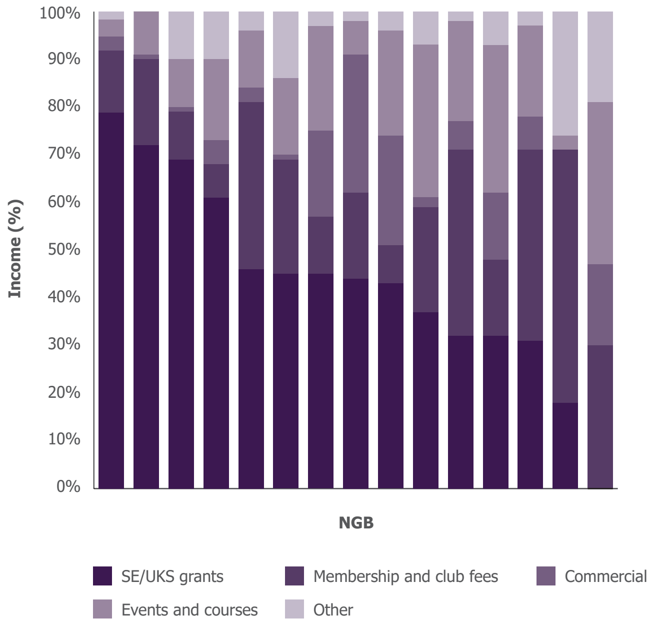
For the year ended 31 March 2020, the largest income source for the sector remains grants given by UK Sport and Sport England making up 42% of revenue. In our previous reports, we flagged a slight downward shift in grant-based income amongst our sample, a trend we have seen slow this year, with a 2% decrease in the amount of income received from UK Sport and Sport England funding. However, this is a slightly different population, and this should be noted.

What is more interesting is the current position of responses from participants as to how their income streams may change as a result of COVID-19. What this shows is a shift of reliance of 9% to the two funders as the pandemic decimated event, training, and to a lesser extent, commercial income. The graphs also show the average decrease in all income streams from participants. Unsurprisingly, predictions show that training and event income is the greatest impacted at around 66% of previous year levels, and in some cases there were predictions higher than this. Broadcasting is quite a minor income stream for this group, so this statistic will not be a major factor. What is interesting here is the membership income with an average drop of 22% predicted across the sector.

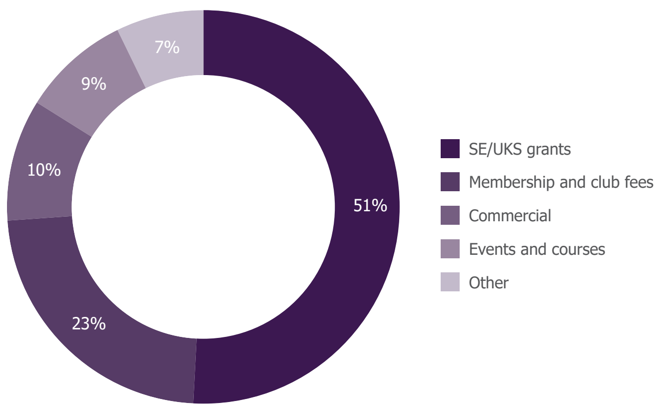
Total income by type
%



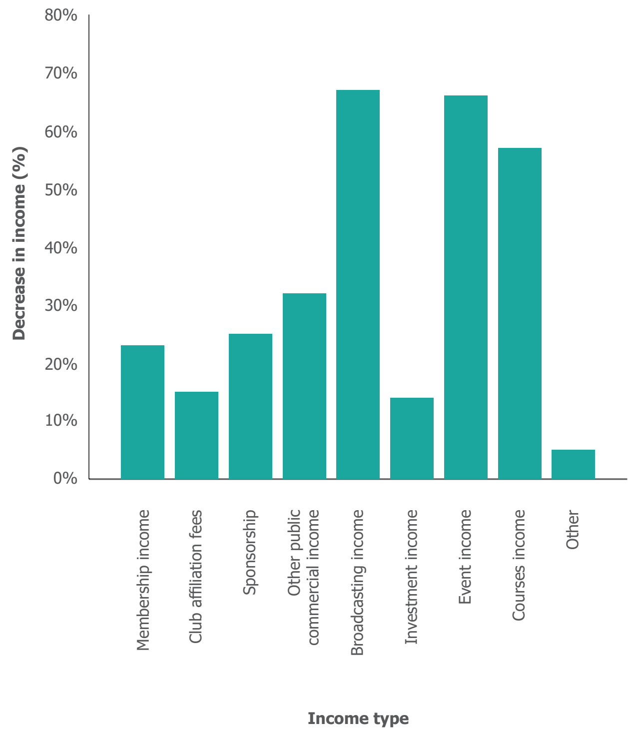
Income source split
By organisation



Total income after COVID-19
Adjusted %



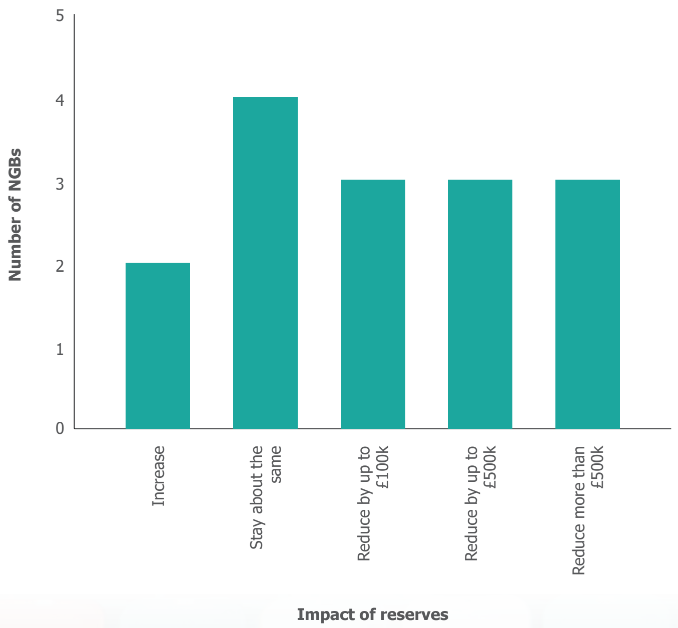
Average predicted drop in revenue as a result of COVID-19
By type



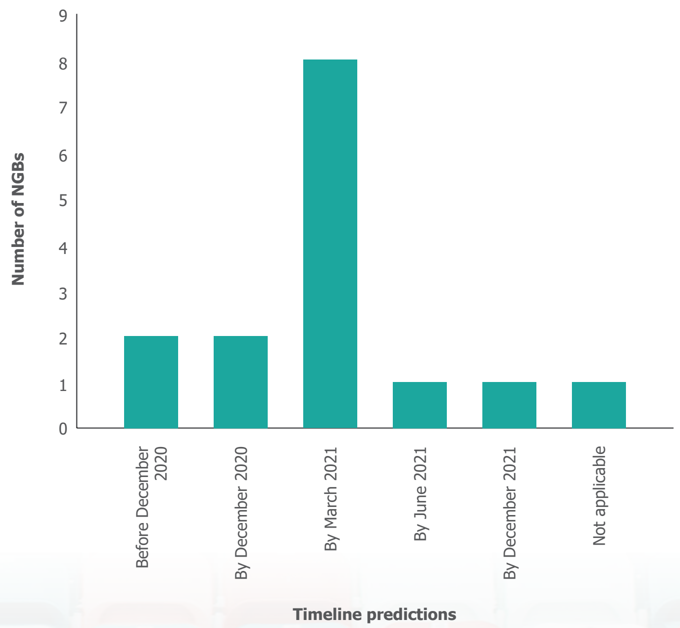
NGBs are predicting a tough year ahead with 60% predicting a net loss this year. There are some winners however, with a small number of organisations predicting surpluses. This appears to be due to the nature of each specific sport and their previous income distribution. We also asked for predictions of the return of mass events, and as expected this seems to depend on the day of the week you ask, but March 2021 was the most common answer when the survey was issued, and while we certainly hope this is the case, the current climate and timelines for vaccines tells a different story.

Fortunately, commercial partnerships have not taken too much of a dip in these challenging times. Fortunately, the relationships between sponsors and NGBs are unique and generally more closely entwined than other corporate relationships. Some ways we've seen clients provide value to sponsors during COVID-19 include additional marketing via digital mediums such as social media, conducting online events, and developing CSR programmes.

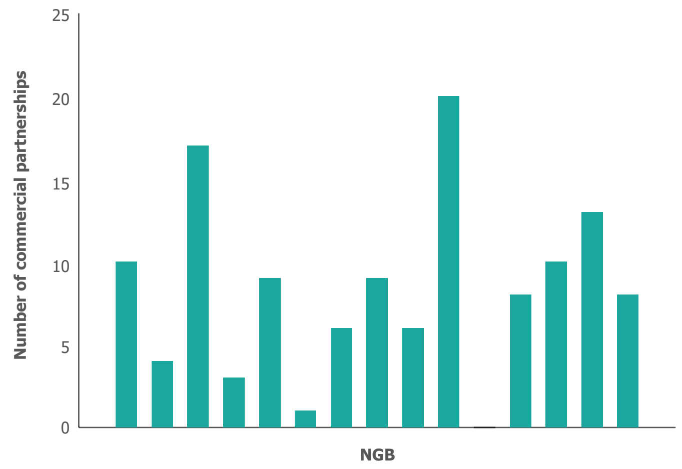
Likely impact on reserves as a result of COVID-19
Number of NGBs



Estimations of when spectator/mass participation events will return
Number of NGBs



Number of commercial partnerships
By organisation



Expenditure

In this report we have specifically looked at areas that may be impacted by the current environment. This is particularly relevant for IT spend, as the world of work and interactions with key stakeholders, such as staff and members, have likely shifted significantly since the beginning of the pandemic. Therefore, spend in this area and investment over the next few years is going to be an important adoption for the sector.

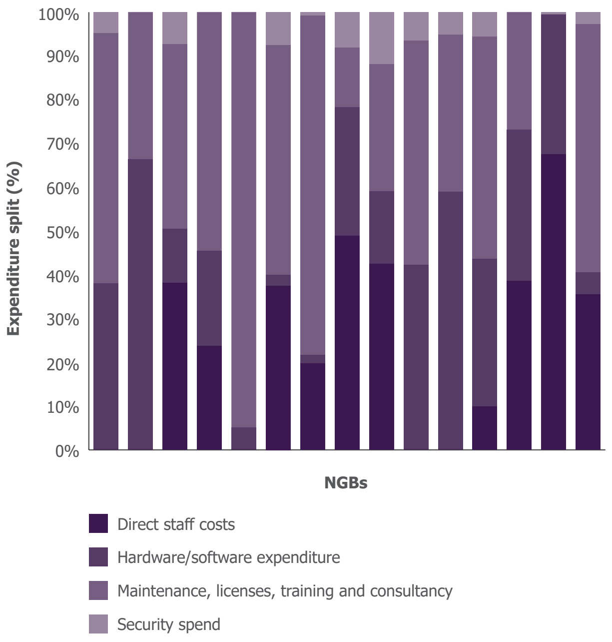
Foreign currency spend remains relatively high for some organisations in the sector. This is likely to drop significantly for 2020 and 2021 year ends due to the impact of the pandemic on travel. However, with Brexit and significant economic challenges to come, those who are likely to have significant foreign currency spends over the next few years may wish to consider some kind of hedging arrangement.

One concerning trend is the minimal spending on cyber security across the survey. More homeworking means greater challenges over internal controls. If not handled carefully this could increase the risk of susceptibility to fraud. The majority of respondents had little or no cyber security certification. The National Cyber Security Centre has written a report this year highlighting sport as a major target for cyber attacks from hackers and even rogue states.

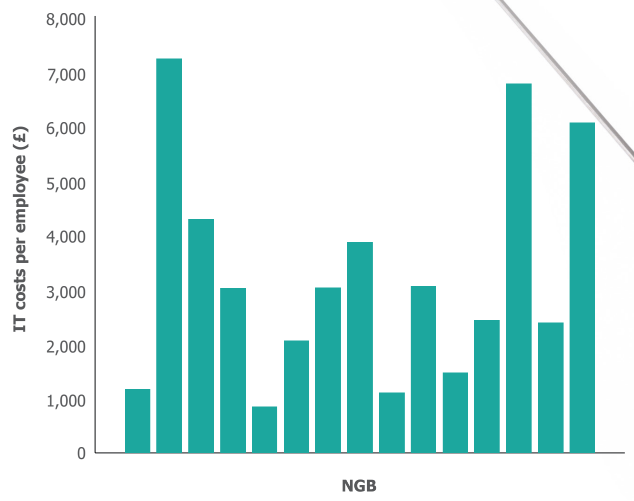
As many organisations in the sector hold significant amounts of personal data, hacking and breaches in GDPR should be high up the risk register.

We've seen a continuing upward trend of data access requests, with over a quarter of organisations receiving over five requests in 2020, up from 17% in 2019.

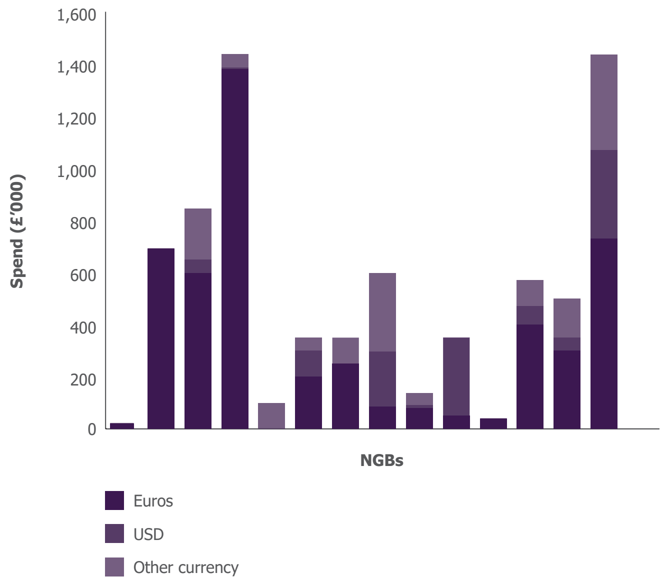
IT spend split
By organisation



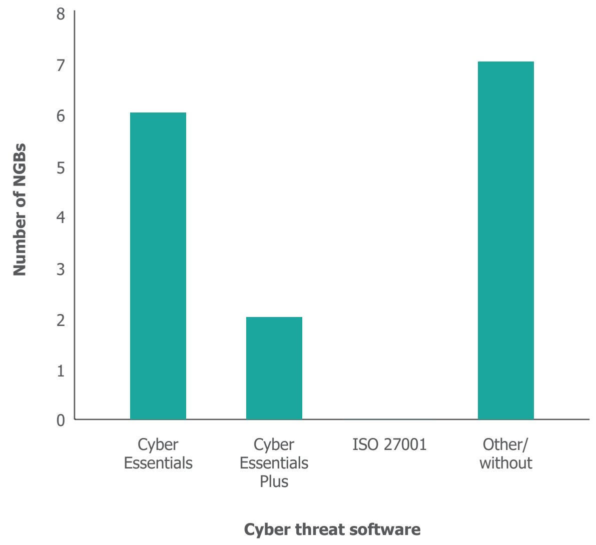
IT costs per employee
By organisation



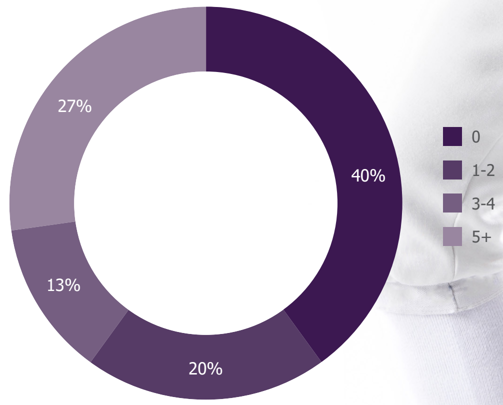
Spending in foreign currency
By organisation



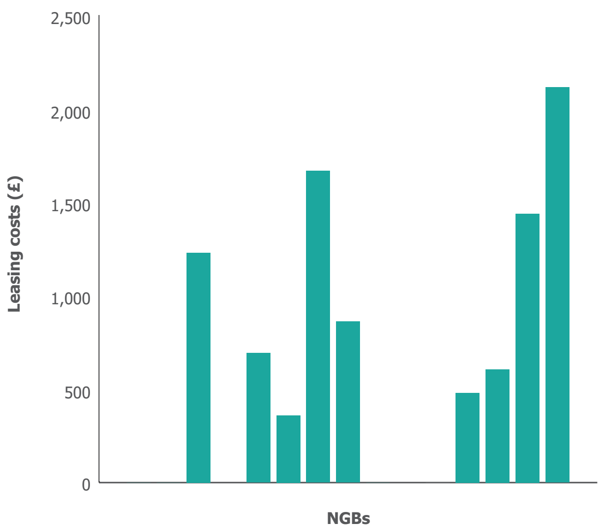
Cyber certification levels
Number of NGBs



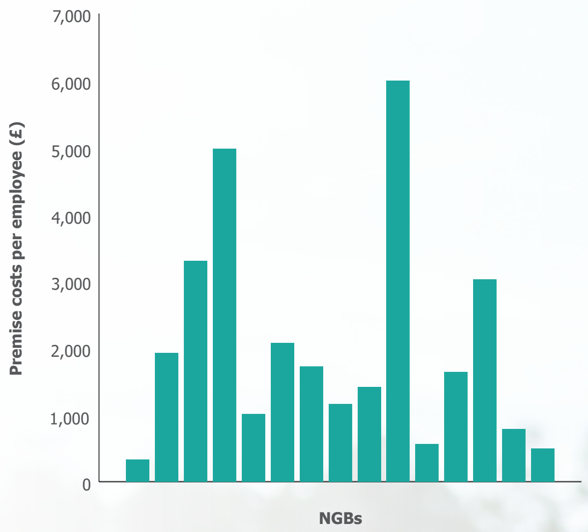
Data subject access requests in the last year
% of NGBs



Motor vehicle leasing costs per employee
By organisation



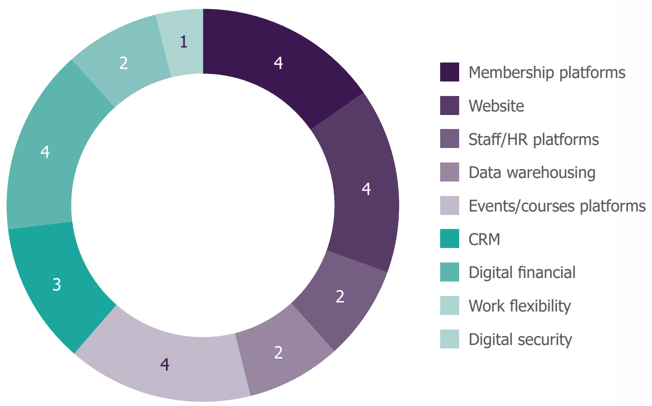
Premises costs per employee
By organisation



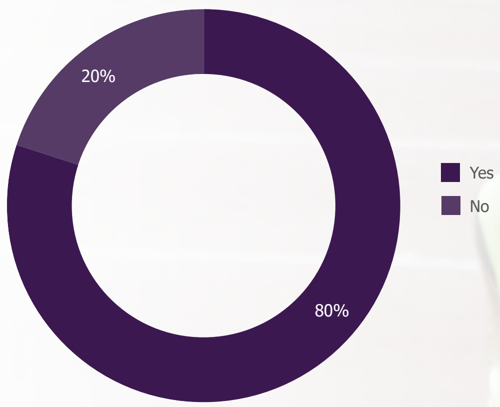
We also looked at premises and motor vehicle spend; these areas were relatively consistent with 2019 levels, however, we also looked at them as a proxy for travel costs, which were consistent with 2018 levels. Both areas are likely to look different in a post COVID-19 world – travel and workspace requirements in particular are under close scrutiny for all organisations, not just NGBs. Given that the average cost of premises per employee is approximately £2k, if even 30% of employees work from home multiple times per week, there is significant opportunity to save money by reducing or eliminating office space altogether, which is under consideration by a number of organisations.

We asked organisations about investment in digital transformation projects and over half of respondents said they had invested in this area. The most popular projects included website development, financial systems, membership systems and events and course systems. We anticipate these investments in digital projects to continue on a sharp upward trajectory for the next several years, as most organisations anticipate at least some remote working and digital engagement to continue well after the pandemic.

Digital transformations
Number of organisations



Invested in digital transformation
% of NGBs



Staff costs

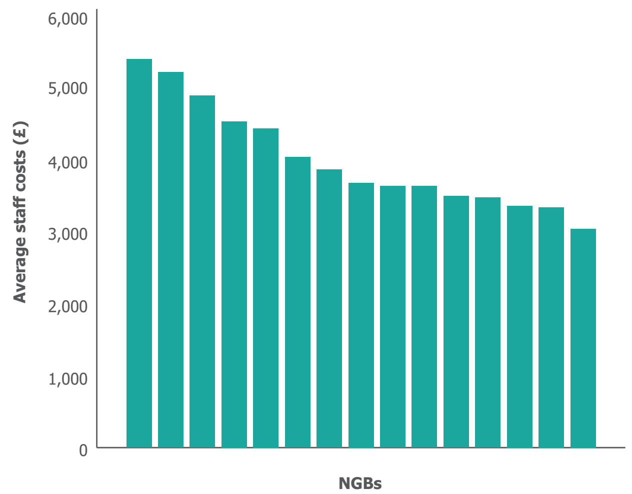
On staff costs, we looked at some of the usual areas including average staff costs and pay of senior employees. There was no significant change in either of these areas. Higher average costs tend to sit with those organisations who are more performance focused, as they tend to earn more than the sector average.

We asked about pay rises in the sector and they were uniform across all grades in 2020. The results are a bit of a mixed bag and that is likely to be related to the time in the cycle when pay is changed. For those organisations who determined pay increases before March 2020, the result was on par with previous trends. For the first time in a long while there is a significant number of respondents who did not raise pay in 2020, a third of respondents. It is likely that those organisations set pay increases after March 2020. As we approach the same time of year, it's unclear if more organisations will freeze pay, or if NGBs will revert back to more typical trends of pay increases in line with inflation. In discussions we've had across the sector, it appears that the former is the case.

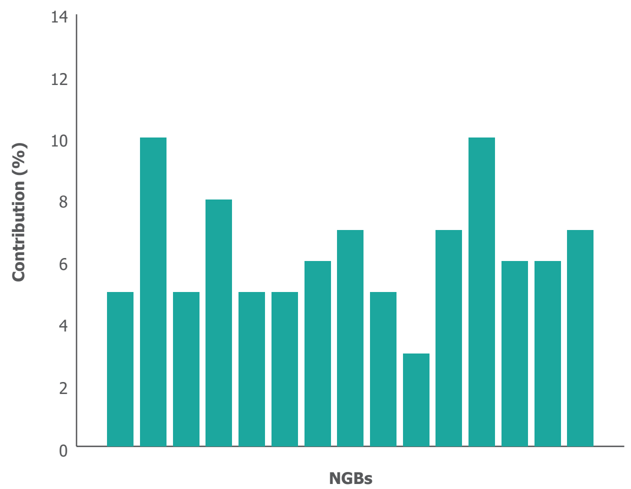
Management pay, an area of scrutiny for many not for profit sectors, has remained the same over the past few years, showing that NGBs have largely avoided the ire of the public in this area. This is likely because senior management in NGBs are generally paid less than high-profile CEOs in some other charity sectors.

In 2020, employer pension contributions have remained static similarly to the prior year, with nearly half of respondents reporting contributions of between 4% and 6%. We do not anticipate this to change this year either, as cost cutting has been shown to be focused on pay packages and through reducing staff numbers entirely rather than pensions. It is however worthwhile to consider this element as an aspect of your staff welfare costs, which we analyse in detail overleaf.

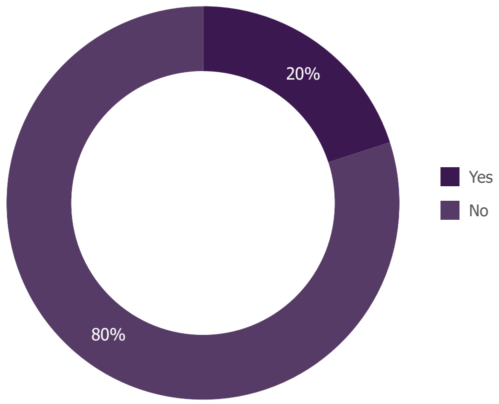
Average staff costs
By organisation



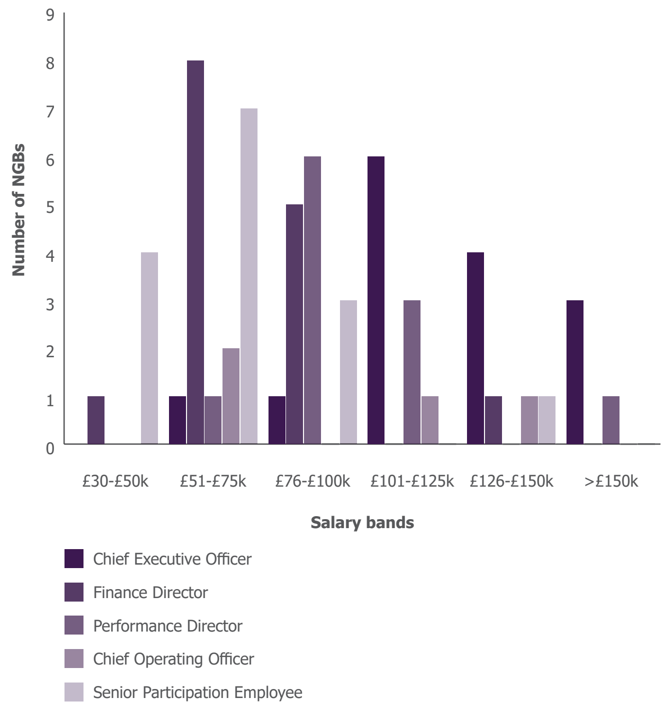
Employer pension contributions
By organisation



Likely to give a payrise in the next six months
% of NGBs



Key management salary bands
Number of NGBs

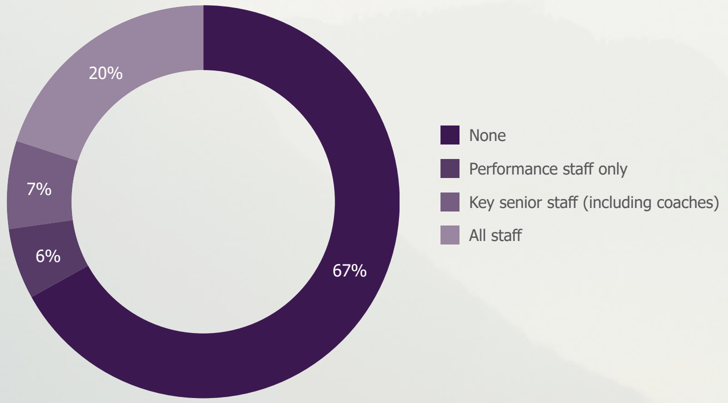


Again, in a period of turbulence, looking after your valued employees is important, and the benefits offered maybe something to consider. The types of salary sacrifice schemes offered by NGBs to employees in 2020 have remained broadly split in the same proportion as 2019 across pensions, cycle to work, and childcare, but car benefit appears to be on the decline.

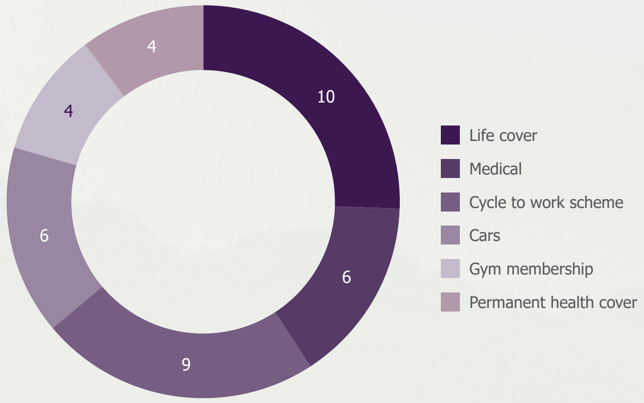
As discussed earlier, the world of work has changed drastically, and we asked about agile and flexible work offerings. Most are already offering some flexibility to their staff and we expect this to increase in 2021 and indefinitely in future years.

For 2020, 33% of NGBs are paying bonuses, a relatively low figure. It is possible that this figure could relate to a cultural change or simply the fact that we are outside of an Olympic year where more performance bonuses are generally paid. Another notable trend is that bonuses are awarded on a blanket basis: only 6% and 7% of organisations awarded bonuses to key senior staff or performance staff only respectively, as compared to 20% who are paying bonuses to all.

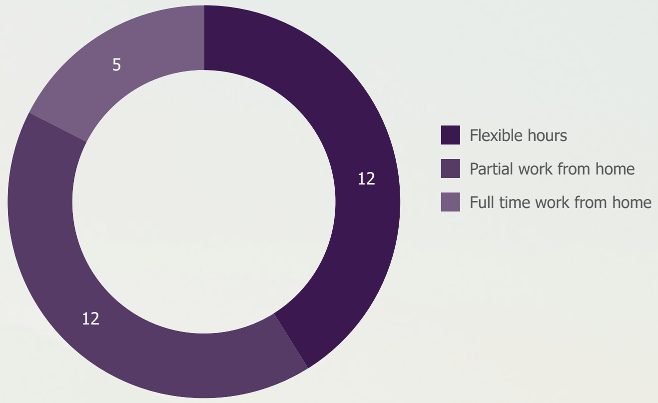
Types of bonuses offered to staff categories
% of NGBs



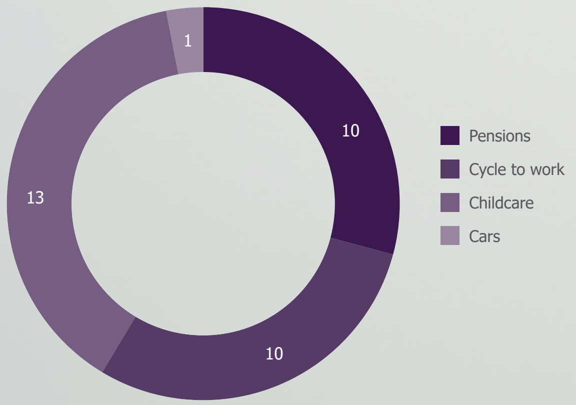
Types of staff benefits offered
Number of NGBs



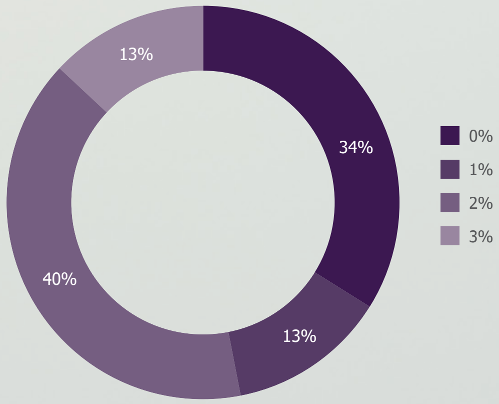
Types of agile working offered
Number of NGBs



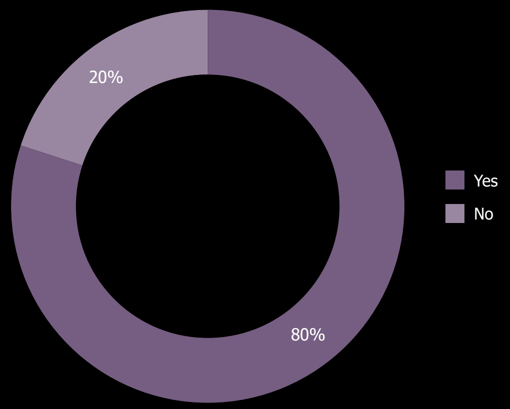
Types of salary sacrifice schemes offered
Number of NGBs



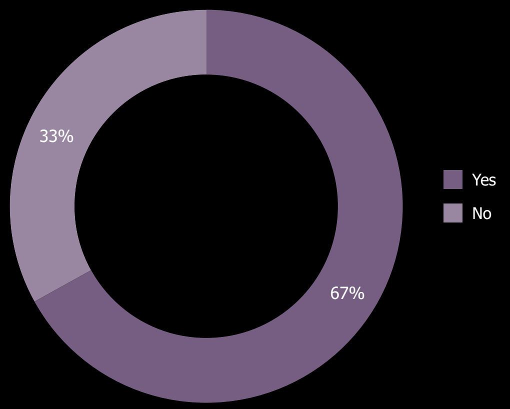
Payrises awarded to all staff
% of NGBs



Use of the furlough scheme
% of NGBs



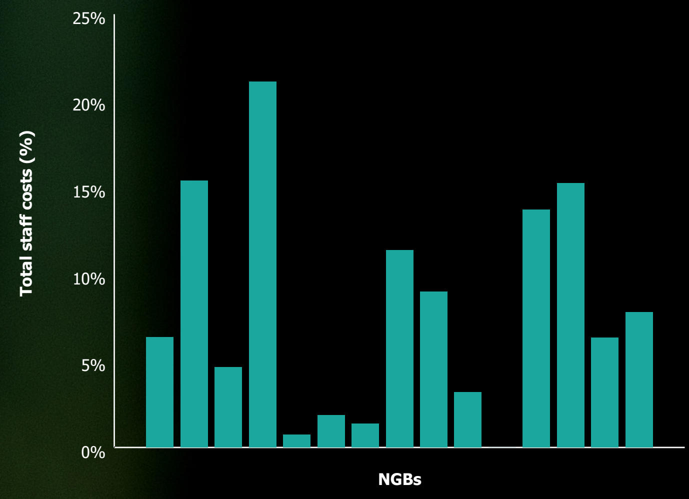
Likely to reduce staff headcount in the next six months
% of NGBs



We looked at the proportion of staff costs allocated to off-payroll workers, generally consultants in the sector, and the results show there are a number of organisations still spending significant amounts on off-payroll workers. This is not necessarily wrong, but there is potential risk here due to the impending (but delayed) implementation of the amended IR35 legislation in this area which may create tax risk. Again, there are many legitimate off-payroll working structures, but organisations operating such a structure should review their exposure in advance of the April 2021 changes.

Government support schemes for staff were used nearly across the board of our sample. 80% of organisations had used the Coronavirus Job Retention Scheme (furlough scheme) in some way in 2020. This was primarily used across the operations departments of NGBs, with some reporting use across all departments. As noted previously, two-thirds of respondents expect to make reductions in their headcount as they deal with the impact of the pandemic. Most reported that they are unlikely to consider pay rises in the current period.

Self employed contractor costs as a proportion of total staff costs
Number of NGBs



Governance

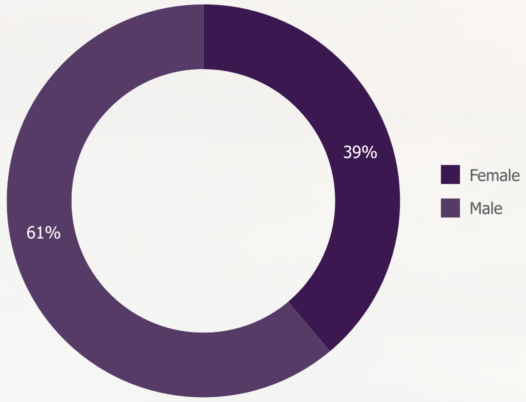
As discussed, the NGB sector is widely regarded as a well-governed one, however diversity in senior leadership has been a challenge for many. Fortunately, the trend towards greater balance in terms of gender representation on NGB boards continues, and the average figure for female representation on boards sits at 39% (a slight increase on the figure of 38% in 2019). Looking at progress over the last four years, the jump towards more gender balance in the sector has been significant – when we polled NGBs in 2016 female representation sat at 30%.

Turning to indicators for ethnic diversity, there has been less progress, with BAME representation at 5%, only a slight increase from 4% in 2019. The contrasting progress in these two areas raises the question of whether the Code needs to be amended to reflect ethnic diversity as a priority in the sector, and we are expecting changes in the next edition.

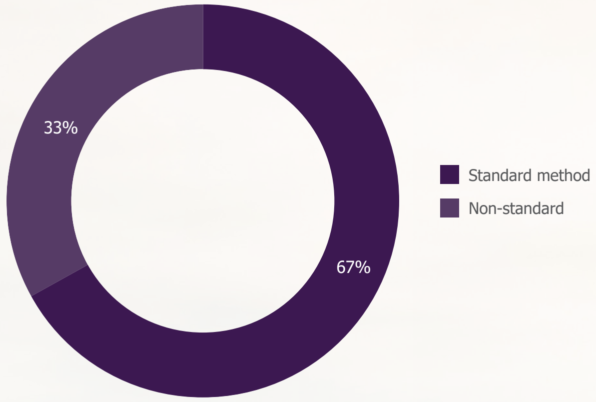
With VAT becoming more complex since the finalisation of Brexit, we anticipate that it will become an even more important area of focus for NGBs in the future. There are significant variations of VAT recovery rates in the sector. This is consistent with our expectations as VAT is complicated for NGBs, and made even more so due to major events. Any NGB which experiences a change in income stream, for example through a new sponsorship agreement, or a global pandemic(!) should review its VAT treatment. Even where there have been no big changes in income patterns, semi-regular reviews of VAT treatment are worthwhile to check that no planning opportunities are being missed.

Reserves are another key discussion topic across the sector for the majority of NGBs, particularly at present. What is noteworthy is the apparent shift away from policies based on an arbitrary 'numbers of months of expenditure' to more risk focused policies, with 38% of NGBs stating they have drafted their policy in this way, up from 23% in 2019. Our thoughts are that this is pandemic-related, placing greater focus on financial risk, but nonetheless it is a positive direction of travel and something which will become more important in future.

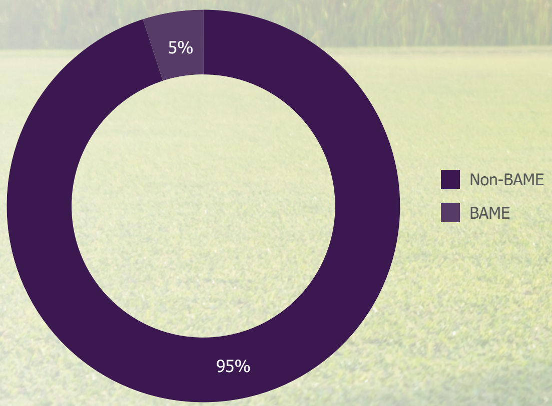
Average gender composition of the board
% across the sample



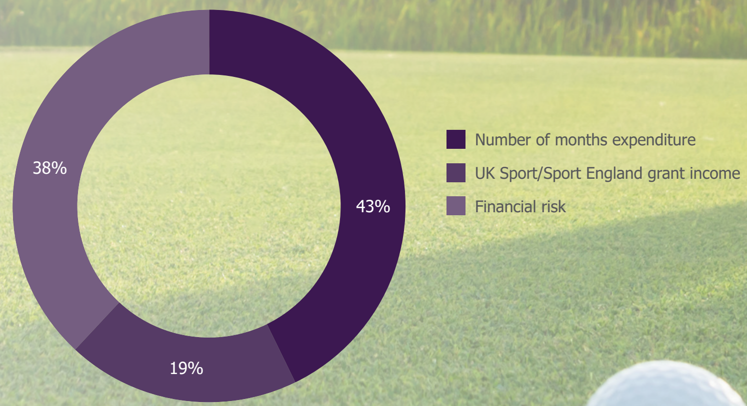
Application of standard method of partial VAT exemption
% of NGBs



Average ethnic composition of the board
% across the sample



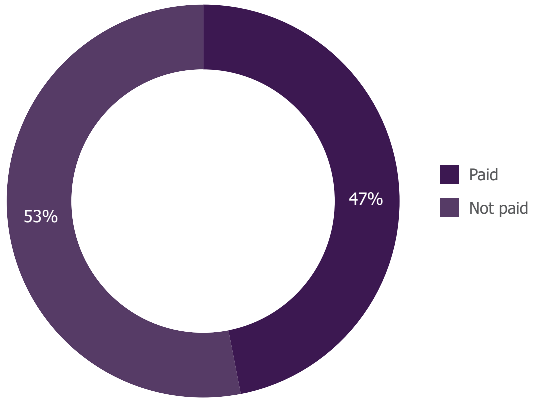
Types of reserve policies in use
% of NGBs



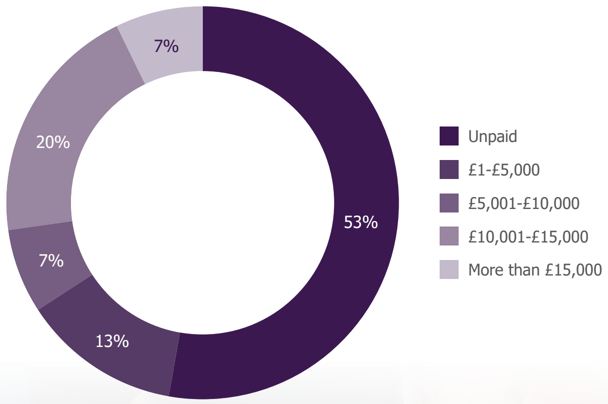
In 2020, we saw an increase in the chair of the board being paid, up to 47% from 42% in the previous year. Of these paid chair positions, the highest percentage paid was from 20% of survey respondents that pay between £10,001 and £15,000.

Looking to the proportion of board members drawing a salary, we see a reduction in board members being paid by NGBs. Organisations in the sports world are now considered extremely well managed and governed – and have become more attractive to senior executives seeking out non-executive roles as a result. These individuals have the skills that NGBs are looking for and may well be willing to take on board roles for career development purposes instead. We believe there is less perceived risk of a management failure in the sector, which may assure able candidates, and we anticipate that these figures will continue in a downward trend in the future. For NGBs who do pay their board, it may be worthwhile to consider if remuneration is necessary anymore.

Is the chair of the board paid?
% of NGBs



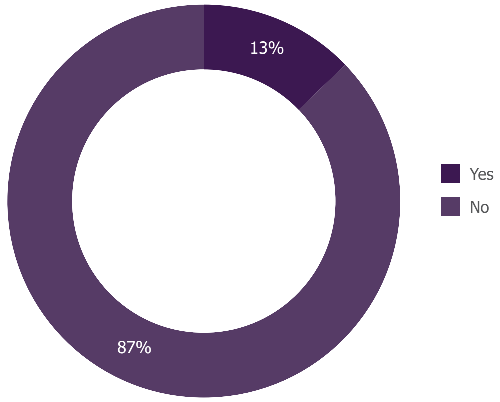
Amounts paid to the chair of the board
% of NGBs



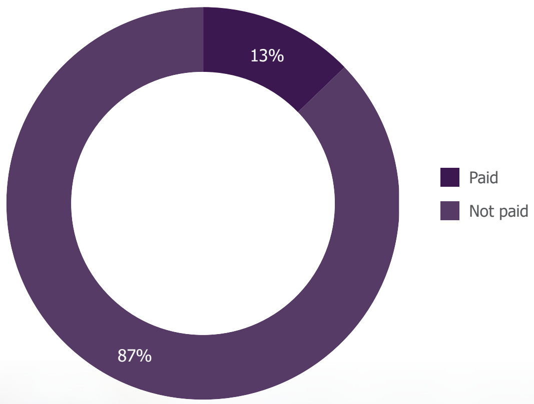
In contrast, 2020 saw a decrease in independent board members of being paid by NGBs. The proportion of paid independent non-executive directors (NEDs) was down to 13% from 21% 2019.

In regard to COVID-19, only 13% of survey respondents reported use of the Coronavirus Business Interruption Loan Scheme (CBILS), suggesting there still appears to be good liquidity in the sector.

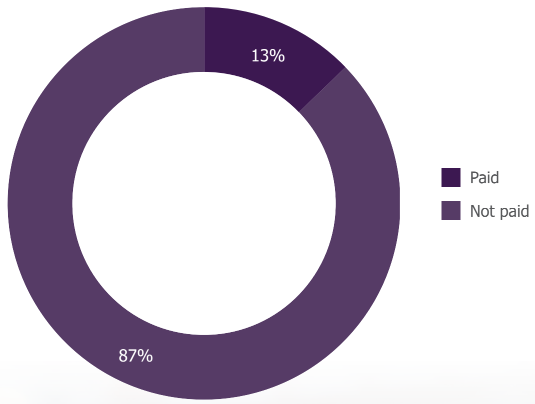
Use of the CBILS scheme
% of NGBs



Proportion of paid NEDs from the membership
% of NGBs

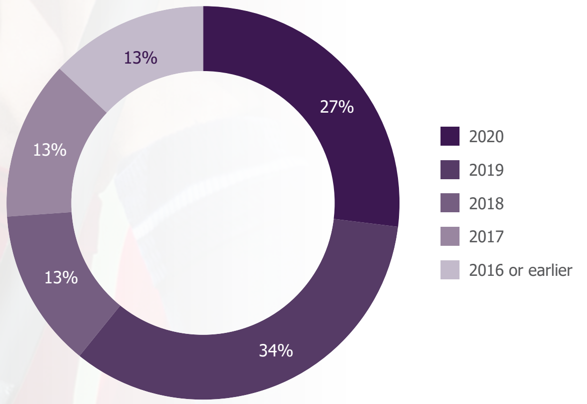


Proportion of paid independent NEDs
% of NGBs

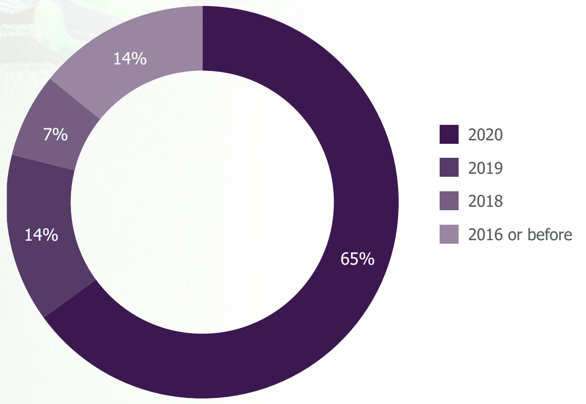


On board effectiveness, the Code requires that NGBs carry out regular reviews of how well the board is performing against its aims – analysis should be undertaken internally every year and externally at least every four years. Those not reporting this in 2020 is down to 13% from more than one-third of NGBs in 2019. This is a similar trend for reviews of internal control, which are occurring in more organisations.

Most recent review of the board's skills and performance
% of NGBs

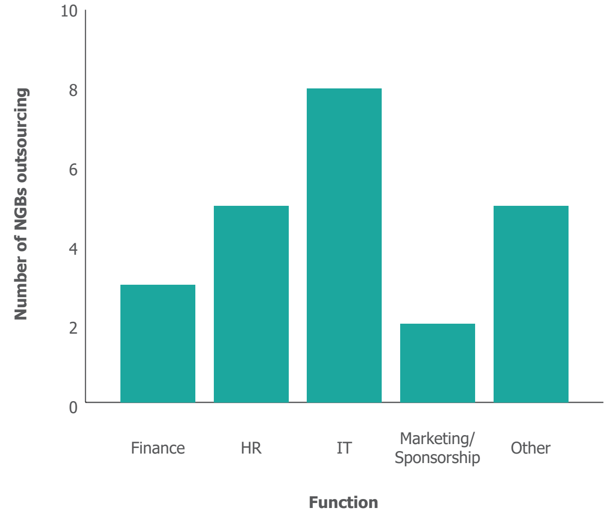


Most recent review of risk management and internal controls
% of NGBs



Another area of focus in the survey is outsourcing. As bodies lose staff resource as a cost saving measure, we may see the expenditure on outsourcing functions increase in some organisations.

Outsourcing by function
Number of NGBs



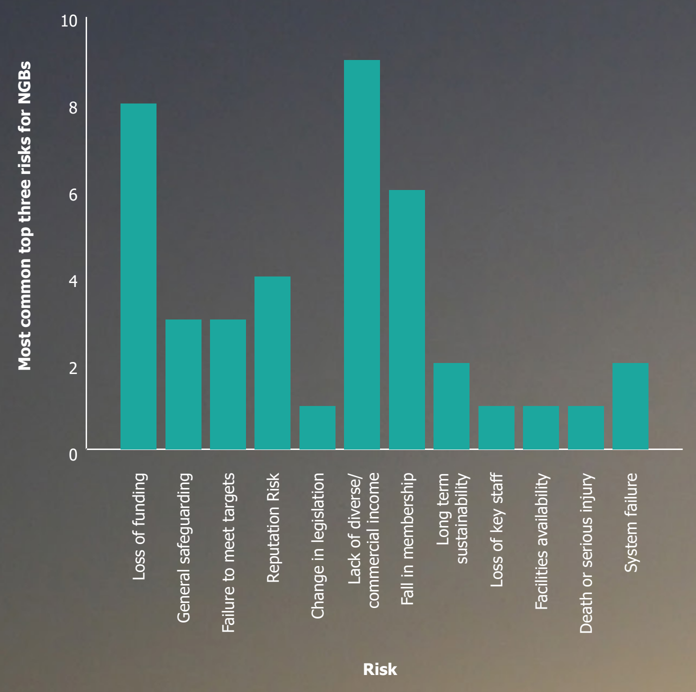
Risk

We asked NGBs to identify the biggest threats they currently face.

Unsurprisingly, most were COVID-19 related, and therefore we reallocated them to the specific area mentioned rather than just 'COVID-19'. The two highest concerns were income related: diversification and drop-in membership. As in 2019, loss of funding was a major preoccupation for our respondents, bearing in mind current government spend is a key concern.

NGBs cited reputational risks and safeguarding as a key concern. We have seen in the last few years that NGBs, as high-profile organisations very much in the public eye, are held up to exceptional scrutiny. Other areas such as Code compliance, good governance, data management, and welfare of staff and athletes are also linked to these concerns. The result is that NGBs are under pressure to meet very high expectations, often without the requisite resources.

Most common high risk areas identified
By how often it appeared in NGBs top three risks



haysmacintyre and sport

At haysmacintyre we know that achieving success in the sports sector is a unique skill, and we understand that organisations in this sector require advice from specialists.

The sports sector is a priority for haysmacintyre and incorporates three partners and some 15 staff. We have a strong presence, acting as auditor and tax advisor to over 40 sports organisations.

Headed by Partner Tom Wilson, our enthusiastic and energetic team provides topical insights and bespoke solutions through a thorough knowledge of the sector. We understand the specific needs of our sports clients and we draw on expertise acting for a wide range of clients to add value to the service we provide.

We run a sport special interest group specifically tailored for the sport sector. Events comprise financial reporting, VAT, corporate tax and employment tax updates, together with relevant topics and debates regarding the sector. We have recently set up a FD Forum for larger bodies in the sector. If you'd like to participate, please feel free to get in touch.

Survey methodology

The sixth annual National Governing Bodies Benchmarking Report has been compiled from a survey completed by participants from the sector. In 2020 this survey was completed by 15 organisations. This is a confidential survey and the organisations who participated are identified by an anonymised number throughout the survey.

haysmacintyre

haysmacintyre
10 Queen Street Place
London EC4R 1AG

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

www.haysmacintyre.com
@haysmacintyre

A member of MSI Global Alliance
Independent legal & accounting firms

We are a Living Wage Employer

Committed to Sustainability

Winner: Audit Team of the Year

Winner of the Bronze Award for 2018 and 2017

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