Lifting the Lid

March 2016

A Review of
Income Generation & Governance Costs,
and Charity Shops

True
AND FAIR FOUNDATION

The True and Fair Foundation (TFF) has two main focuses. Supporting dynamic charities undertaking transformational work, particularly smaller community organisations. Promoting smart, informed philanthropy and giving that magnifies the return on donors' generosity.

TFF believes that recalibrating the charity sector into a more competitive market will ensure the survival of the tens of thousands of vulnerable charities being hit by a perfect storm of reduced funding, increased demand and sustainability issues. Without these organisations who are the backbone of a true and fair society, we all suffer.

Generosity *heals* communities

This report is intended as a basis for discussion for stakeholders of the UK charity sector. The opinions expressed, and the designations and terminology employed in the report, are those of the True and Fair Foundation.

Comments on this report are invited and may be addressed to the authors at
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Summary

This True and Fair Foundation (TFF) report provides an analysis and evaluation of the current size of the UK charity sector, an analysis of income generation and governance costs of large UK charities including a US peer group comparison, and UK charity shops.

The ratio of costs related to the generation of income and governance costs, expressed as a percentage of total incoming resources used by TFF follows exactly the same ratio used by the Charity Commission on their Beta website and is labelled clearly as 'income generation and governance'. All data was obtained from the Charity Commission Beta website, as well as the last two Report and Accounts available for each of the 50 large charities analysed in order to provide data for the last three financial years.

The findings show that the UK is performing poorly compared to US counterparts. In terms of the charity shops research, TFF found that these UK chains were far less profitable compared to a leading US charity shop chain and were no more profitable than a leading UK commercial retail shop chain.

TFF does not dispute that the UK charity sector provides invaluable benefits to society as a whole. It is specifically for this reason that the charity sector should be open to scrutiny. In recent months, the charity sector has become the subject of severe public criticism. There is legitimate public interest in improving the performance of the charity sector by calling for a greater degree of transparency and accountability. The financial performance of a charity is an important factor in the public deciding where to give its time or money.

The overall data and analysis within this report demonstrates the legitimacy of investigation and for debates on best practice benchmarks, quality control, accountability and transparency to take place.

The evidence in this report and our earlier report leads TFF to believe that, judging by some key financial performance indiciators, the charity sector has a considerable way to go to demonstrate it is operating as efficiently as possible for the benefit of the various charitable objectives. This calls into question the impact self-regulation is having on the sector. The findings in this report lead TFF to believe that self-regulation is not working, since it is failing to ensure the best return on investment, thereby maximising the benefit for those for whom the charitable activites are designed to benefit.

William Shawcross, Chairman of the Charity Commission of England and Wales, recently said, *"It sometimes seems that big charities in particular have been impersonal, aggressive and, in some cases, exploitative… The defensive response from some leaders in the sector had not helped… charities should welcome scrutiny."* [1] In terms of public trust, it is evident that the UK public are losing trust in the charity sector. TFF believes that if the sector was more robustly regulated and excesses were controlled, trust would be rebuilt and this could lead to people giving more, in terms of both resources and funding.

[1] http://www.telegraph.co.uk/news/politics/12143506/Charities-must-not-abuse-our-great-generosity.html

Recommendations

TFF's findings identify efficiency weaknesses in the UK charity sector that require remedial action by Government as poor outcomes are damaging the entire sector, with all charities suffering from decreased public trust. The money being handed over to predominantly large charities, either through granting or commissioning, is an attempt to fill the gaps being left by cuts to public services. This money should therefore be open to full financial scrutiny.

Key Recommendations - based on evidence from this report, together with previous report recommendations.

1. The Government should urgently set up an independent inquiry to investigate and ultimately improve the transparency and efficiency of the UK charity sector.

2. Gift Aid should be restricted to the percentage of a charity's income spent on charitable activities, rather than any other expenditures. This would incentivise charities to be more efficient, whilst the money saved by Government could be better spent, e.g. on innovative local community projects in the most deprived areas which tend to be bereft of charities, or on encouraging social entrepreneurs.

3. Any charity, over an agreed limit, receiving Gift Aid or any other form of Government funding should be subject to the Freedom of Information Act.

4. The role and value of 'traditional' charity shops should be urgently reviewed. The mandatory 80% minimum business rates relief for charity shops should be reduced by 10% a year to 50% in three years' time. This would reduce the unfair playing field for other high street operators and dampen the rate of growth in store openings.

   A fundamental rethink regarding the efficiency, role and positioning of charity shops on high streets.

5. A best practice maximum benchmark for fundraising and governance costs as a percentage of overall income should be introduced by the sector, if not by the Charity Commission. TFF's view is that this should be c. 25% over rolling three year periods.

6. The Financial Reporting Council (FRC) should urgently introduce a new format for the charity Statement of Recommended Practice (SORP). TFF's research concludes that the current format of the SORP is not fit for purpose in terms of providing donors with key financial information they require in a clear and understandable format.

Ongoing Recommendations from the TFF

1. A more rigorous system of financial oversight and accountability is necessary. TFF suggests the charities submit their report and accounts to HMRC. Relieving the Charity Commission of this responsibility would allow them to better use their resources to regulate the sector.
2. There should be a periodic three-year review of organisations' charitable status.
3. There should be an urgent review of the rules governing the granting of charitable status.
4. A good practice benchmark for spending on charitable activities over a set period to be introduced. TFF's recommendation is that this is set at 65% over rolling three-year periods - with agreed exceptions.
5. A 'Give & Good label' should be introduced across all fundraising materials and charity websites so donors can clearly see a breakdown of their donation in terms of how much goes to the end charitable activities, how much is spent on fundraising and governance costs and how much goes to reserves.
6. Set limits should be introduced on senior executive remuneration including pension provision and any other benefits within any registered charity.

Scope of the Report

Due to the limitations of the existing charity SORP, TFF utilised a complicated filtering process. Many charities differed in how they reported various costs and revenues and the allocation of various costs to particular categories. Furthermore, it was very difficult to deduce how donations were split between individuals, corporates and government, as much of this income is bundled together within the 'Voluntary Income' heading.

TFF analysed the TOTAL Incoming Resources, the TOTAL Charitable Activities and the TOTAL Costs of Generating Funds within the Consolidated Statement of Financial Activities rather than any particular subdivision thereof for the analysis.

Size of the UK Charity Sector and Cost to UK Taxpayer

- There are 165,290 charities in England and Wales, which equates to one charity per 347 people
- The annual income of these charities, at the end of 2015, was £70 billion
- The UK charity sector receives £17.9 billion each year from taxpayers, made up of £13.3 billion[2] of income from Government and £4.6 billion of tax relief to charities and individuals. **This is more than the amount spent on sizeable Government departments e.g. the Home Office (£13.2bn) or Ministry of Justice (£7.8bn)**[3]
- Totalling overall annual income, and the economic value of 20 million volunteers, **equates to a £93.9 billion industry employing over 800,000 people**
- There is a concentration of charities and projects in wealthy areas e.g. London, rather than the areas of greatest need.

[2] http://data.ncvo.org.uk/a/almanac15/government/
[3] http://www.gist.cabinetoffice.gov.uk/oscar/2014-15/

Findings

1. Large Charities Dominate

- The UK charity sector is dominated by large charities who receive the majority of funding - **charities with over £10 million of annual income account for just 0.4% of organisations, but 48% of the sector's income**[4]
- The TFF believes that without sector reform thousands of smaller, often innovative and effective smaller charities and projects are under threat of disappearing.

2. Large UK Charities Spend Two Times the Average UK Charity, In Terms of Income Generation and Governance

- TFF found that the average percentage spent by 5,089 UK charities on income generation (often mostly fundraising costs) and governance was a very reasonable 11%. Charities analysed reported income of over £1m each, and the combined total was £43.4bn
- 50 of the UK's largest charities, all of which received substantial donations from the public, spent double the average UK charity percentage on income generation and governance costs - 22% vs 11%. The average UK charity was calculated as the average of the 5,089 charities analysed
- These 50 large UK charities spent, on average, twice the amount 50 large US charities spent on similar cost categories - 22% in the UK vs 10% in the US.

It is worth noting that some of these charities achieved commendable charitable spending ratios above the TFF proposed 65% good practice benchmark, which highlights the importance of NOT taking any statistics in isolation.

[4] http://data.ncvo.org.uk/a/almanac14/how-big-is-a-typical-voluntary-organisation-3

3. Charity Shops in the UK Typically Make Just 17p Profit per £ of Revenue

- Based on the latest accounts available, the typical large charity shop chain **makes just 17p profit per pound of revenue** once allowance is made for any central costs directly allocated to these shops
- This is **less than the typical 18% operating margin[5] made by Next plc** without charity shop benefits that include an extensive workforce of unpaid volunteers, 'free' donated goods and a minimum 80% discount on business rates

Profit Margins of 10 of the UK's largest charity shop chains

	Profit Margin*	Number of Shops
Oxfam**	28%	700
Cancer Research UK	22%	579
British Red Cross	21%	320
Barnardo's	20%	640
British Heart Foundation	17%	735
Marie Curie	16%	193
Salvation Army***	15%	199
Sue Ryder	14%	458
Age UK	13%	428
Scope	5%	235
Average	**17%**	

*Profit margin is calculated from latest available Report & Accounts after deducting any allocated support costs.
**The Oxfam profit margin excluded revenue and costs associated with Oxfam Activities Limited and Frip Ethique.
***Based on operating profits of Salvation Army Trading Company Ltd which includes the Salvation Army charity shops together with other trading activities.

- **The US charity, Goodwill Industries[6], which runs 3,000 charity shops, manages to convert 83% of overall income into profit for charitable activities. The majority of Goodwill Industries' income derives from its charity shops**
- **The profits from UK charity shops are c. £290m[7] - but it is estimated to cost the UK taxpayer between £273m and £1,558m pa in terms of business rates relief, VAT discounts and Gift Aid.**

[5]The average operating margin for every six month period from 30/09/08 to 30/09/15 was 18%. This included the mail order operations. Similarly, many charities within their retail income benefit from mail order and internet related sales
[6]http://www.goodwill.org/about-us/
[7]According to the Charity Retail Association (http://www.charityretail.org.uk/charity-shops/)

Conclusion

If the amount given to the entire charity sector overall is not growing as a result of extra fundraising expenditure, then large charity fundraising empires are in reality simply increasing their share of the cake, but not the size of the cake itself.

There is little doubt that ‘share of voice’ is being dominated by big brand charities. TFF’s experience and informed view is that the majority of charities have charity rather than self-enrichment in their DNA and are being unfairly penalised by excesses found elsewhere in the sector.

The sector’s first response is to be defensive, but given the statistics in this, and previous TFF reports it is our view that the Government should be taking more responsibility in reforming the sector so donors have the ability to make better informed decisions, and that a true and fair competitive market is operating.

To passionately help as many people as possible requires a dispassionate analysis of the hard data, infrastructure, practices, efficiency / waste and conflicts of interest. If inefficiencies and poor practice are not challenged there will not be an accelerated drive to accountability. The huge opportunity costs borne by the vulnerable in society and, by inference, generous donors’ capital not deployed with the greatest effect needs to be addressed.

Introduction

The Charity Sector – Why Increased Scrutiny is Needed

Charities are the subject of legitimate public interest and scrutiny. This is not only due to the implied contract they have with donors that money will be spent on their charitable purposes, but also due to the significant tax benefits charities receive, predicated on the principle that the lion's share of their efforts and expenditure is for the public benefit.

Size and Economic Value of the Sector

Today's UK charitable sector is significant in terms of gross income and expenditure, assets under management, employment, job creation and beneficiaries.

There are different estimates for the size, income and activities of the voluntary sector, but according to the Official Statistics[8] there were 165,290 charities in England and Wales with an annual income of £70 billion at the end of 2015. **This means that the UK has one charity per 347 people.**

According to the HMRC[9], in the tax year 2014/2015, charities received £3.4 billion in various tax reliefs; however, the true figure may be as high £6.5 billion[10]. An additional £1.2 billion in various tax reliefs was also provided to individuals associated with their charitable giving.

Totalling the amount of voluntary sector income received from Government, estimated at £13.3 billion[11] to the £4.6 billion received by charities and individuals in tax relief, the UK charity sector receives a staggering £17.9 billion from Government each year. To put this £17.9 billion in context, see the table below:[12]

	Spend
HM Revenue and Customs	£46.8 billion
Ministry of Defence	£43.7 billion
Department for Communities and Local Government	£33.0 billion
Department for Business Innovation and Skills	£28.1 billion
Department for Transport	£20.0 billion
National Health Service Pension Scheme	£18.5 billion
Income from Government paid to charities and tax relief claimed by charities and individuals	***£17.9 billion***
Home Office	£13.2 billion
Department for International Development	£9.8 billion
Department of Energy and Climate Change	£9.3 billion
Ministry of Justice	£7.8 billion
Department for Culture, Media and Sport	£7.2 billion
Armed Forces Retired Pay, Pensions etc.	£6.4 billion

[8]Recent charity register statistics: Charity Commission, 31 December 2015
[9]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456107/Table_10_2.pdf
[10]Transparency Begins At Home - Why Charities Must State Who Funds Them Report - http://www.cps.org.uk/publications/reports/transparency-begins-at-home/
[11]http://data.ncvo.org.uk/a/almanac15/government/
[12]http://www.gist.cabinetoffice.gov.uk/oscar/2014-15/

Value of Volunteering

The public's support of charities is not just in the form of money. 75% of adults in England had, in 2014/15, given to charity in the four weeks prior to a survey carried out by the Government, as well as 47% of adults in England volunteer at least once a month on either a formal or informal basis[13]. *'Charities play a vital role in improving our society and make a huge contribution to the UK economy. They employ over 800,000 people and support over 20 million people to volunteer across the UK every year. The voluntary sector as a whole (mainly charities) has a gross value added of £12.1bn per year and we estimate the economic value of UK volunteering at over £23.9bn'* [14].

According to TFF's calculations, the total annual income of the UK charity sector and the estimated economic value of volunteering, equates to a £93.9 billion per annum sector.

Giving Distribution – Not a Level Playing Field

Charities with over £10 million of annual income account for just 0.4% of organisations by number, but 48% of the sector's total income[15]. Three quarters of all charities receive less than £100,000 of income per annum. Without sector reform thousands of these smaller, often innovative and effective local charities and projects will disappear.

If charitable giving remains largely constant over time, there is a threat that it could result in a race to the bottom amongst larger charities. Charities would be forced to hire ever better-compensated executives and fundraising managers to aggressively compete with one another for larger shares of a relatively fixed pot of money, with proportionally less and less money actually going to the causes these organisations exist to support.

[13] House of Commons Briefing Paper Number SN05428, 21 July 2015, Charities and the voluntary sector: statistics - http://researchbriefings.files.parliament.uk/documents/SN05428/SN05428.pdf
[14] Business Rates Review: Discussion Paper - Joint response from Charity Finance Group, Institute of Fundraising, NCVO, and Charity Tax Group
[15] Source: Recent charity register statistics; Charity Commission

Too Big to Fail

In the financial sector we have seen a 'too big to fail' culture develop. This colloquial term refers to a belief that some financial institutions are so important to our economy that they must be propped up by Governments. Economists, such as Paul Krugman, believe that economies of scale in banks and in other businesses are worth preserving, so long as they are well regulated in proportion to their economic clout, making their "too big to fail" status acceptable.

However, opponents believe that one of the problems that arises is *moral hazard* whereby a company that benefits from these protective policies will seek to profit by them, deliberately taking positions that are high-risk. Opponents see this policy as counterproductive and that institutions should be left to fail if their risk management is not effective. One such critic, Alan Greenspan, believes that such large organisations should be deliberately broken up: *"If they're too big to fail, they're too big"*[16].

TFF believes that the same arguments and principles can be applied to the charity sector where some organisations have become supersize monoliths with insatiable financial appetites leading to moral hazard.

Charity Concentration

Our work with small charities and projects over the last eight years has also highlighted the issue of a concentration of charities and projects in wealthy areas, rather than where there is greatest need. The research consultancy, nfpssynergy, also found that *"it seems likely that voluntary action is not capable of filling the gap in poorer parts of the country. Withdrawing state funding and services and encouraging communities to fend for themselves is likely to work fine for wealthier areas but will leave poorer areas behind."* The exception is London, which has some of the most deprived areas in Britain as well as a comparatively high numbers of charities. This is probably due to the many national charities registered in London, which in itself raises questions.

[16]Greenspan Says U.S. Should Consider Breaking Up Large Banks". Bloomberg. 2009-10-12. Retrieved 2010-02-05.

Government's Role

Governments of all persuasions have encouraged charities as a means of strengthening civil society and social responsibility, as well as filling the gap caused by cutting public services. But there appears to be a number of charities failing to ensure that as much as possible of the money they receive goes to their end charitable activities.

Throwing more and more money into a sector increasingly being characterised by inefficiency, duplication, lack of collaboration, an un-level playing field, and lack of accountability and transparency, is like increasing the flow rate from a tap when there is a huge hole in the bucket. TFF believes that we need to mend the bucket first before putting in more water. Yet the tap keeps running.

In December 2015 the Government announced that 'Dormant assets worth up to £1 billion are set to revolutionise charity funding'[17]. Our view is that the new Dormant Assets Commission, which aims to unlock billions of pounds of dormant assets such as stocks and shares untouched for more than 15 years, is irresponsible. This follows the Dormant Accounts Scheme which has raised £750 million from dormant bank and building society accounts since 2008[18], but to date they have only granted tens of millions of pounds. The recent 5 pence plastic bag 'tax' introduced in October 2015 is expected to raise £70 million[19], all of which will go to charities. The charities, several supermarket and high street chains named as likely recipients, are again the big brand charities.

[17] https://www.gov.uk/government/news/dormant-assets-worth-up-to-1-billion-set-to-revolutionise-charity-funding
[18] http://fundraising.co.uk/2016/01/07/cabinet-office-commission-to-reclaim-dormant-assets-for-charity/
[19] http://researchbriefings.files.parliament.uk/documents/CBP-7241/CBP-7241.pdf

Trust and Transparency

Whilst some commentators, such as Peter Kellner, president of YouGov, have sought to gently highlight some home truths[20] to the sector and encourage all stakeholders to examine the issues eroding public trust, we believe a more direct tone is necessary.

Over the last eight years we have heard from both supporters and charities anecdotal evidence of waste and excess that is now alienating an increasing significant number of stakeholders - philanthropists, trustees, charity staff, volunteers and donors. This is at a time when economic inequality and the gap between rich and poor is dramatically widening and the need for charities to fill this gap is becoming more urgent[21].

David Babbs, chief executive of the online campaign group 38 Degrees, has also issued words of warning to the sector. He stated that fundraising was not the only issue that caused public resentment. *"It's hard to see how anyone running a charity should be on £200,000,"* he said. *"I don't think you have got answers to that, that the public recognise."*

YouGov Trust in Charities Research Findings[22] - 2015

- Fewer than one in two people (42%) trust the people who run charities, compared with 87% who trust family doctors, 79% school teachers and 73% local police officers
- Trust in charity leaders has dropped to 34% among people aged 60 or over - the demographic group most likely to donate.

Free Postcode Lottery[23] / PollFish.com Survey[24] - Charities are putting us off donating money – October 2015

A clever young entrepreneur, Chris Holbrook, who set up this lottery asked 2,000 people, primarily in the UK, in October 2015, questions via PollFish.com about charity. He felt that even though we have an innate desire to give, this desire has been eroded by increasingly questionable marketing practices.

Findings of the Free Postcode Lottery / PollFish.com Survey:

- 1 in 4 respondents said they don't give enough money to charity
- 3 in 4 of these respondents were put off by charities' marketing tactics
- Half of respondents would give more if charities didn't spend so much on marketing.

Holbrook says, *"I believe that we are born with an innate charitable desire, but that desire has been eroded away by charities', and (more often than not) their partners' marketing. Marketing isn't bad in itself, but too much of it treats the donor as a means to an end. We've become too wise and cynical for this to work in any sustainable way"*.

With growing negativity damaging all charities, good and bad, it is the opinion of TFF that straight talking is imperative. Excessive overheads and fundraising costs, combined with inadequate regulation and transparency, are contributing to a sector increasingly out of control.

[20] http://www.theguardian.com/voluntary-sector-network/2015/nov/23/charities-fundraisng-scandals-public-trust
[21] http://www.independent.co.uk/news/uk/home-news/britains-divided-decade-the-rich-are-64-richer-than-before-the-recession-while-the-poor-are-57-10097038.html
[22] https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/usfthvzt97/YGtrackers-Trust.pdf
[23] http://freepostcodelottery.com/charities-putting-us-off-donating-money/
[24] https://www.pollfish.com/dashboard/dev/results/3907/-1724070222

Main Research

As the overly emotional responses to TFF's original Hornet's Nest Report[25] amplified, alarm bells starting ringing for the team. This prompted us to dig deeper into the charities' Report and Accounts. The two main areas we focused on were fundraising costs and charity shops.

Section 1 - UK Fundraising and Governance Costs

Research Aim

The research sought to identify the percentage of overall income spent on fundraising and governance. Further analysis was conducted on large UK charities that derived a substantial income from the public rather than from corporates, grants, Government etc. Their income generation and governance percentage and their charitable spending percentage were calculated over a three year period to reduce the impact of year to year fluctuations. The results were compared to a list of large US charities ranked by the amount of private donations received.

Methodology

TFF analysed 5,089 UK charities with income of over £1m in their latest financial year, according to the Charity Commission data, and looked at the percentage of their overall total incoming resources (including any trading activities) spent on the costs of generating this income and governance.

The total income of the charities analysed was £43.4bn.

All the data came from the UK charity regulator, the UK Charity Commission, which itself used the reports and accounts filed and signed off by each Charities' Board.

The ratio of costs related to the generation of income and governance costs, expressed as a percentage of total incoming resources used by TFF, is **exactly the same ratio used by the Charity Commission on their Beta website and is labelled clearly as 'income generation and governance'[26].**

To arrive at our target of 50 large charities we first analysed the 250 largest charities, ranked by their total income within the 5,089 sample. We then calculated the amount of their voluntary income which was 'unrestricted', as most public donations rather than government/corporate donations tend to be unrestricted. We then sought to deduct any income within this number that was specifically stated to have derived from Government grants (save Gift Aid), acquired assets, designated income, corporate donations, and investment income or endowment funds. We also excluded any charities where the income derived from just one or two individuals. The TFF filtering process resulted in the 50 large UK charities analysed.

[25] http://www.trueandfairfoundation.com/content/file/feature/review-hornets-nest-report-into-charitable-spending-UK-charities-12-dec-15.pdf

[26] http://beta.charitycommission.gov.uk/charity-details/?regid=1129044&subid=0

This complicated filtering process was required as it is our view that the accounts of charities, which follow an agreed accounting format (SORP), are not fit for purpose in terms of helping the public see how their £ is working in a simple, consistent and straightforward manner. This is because many charities differed in how they report various costs and revenues, and the allocation of various costs to particular categories. Furthermore it was very hard to deduce how donations were split between individuals, corporates and Government. We chose to use the TOTAL Incoming Resources, the TOTAL Charitable Activities and the TOTAL Costs of Generating Funds within the Consolidated Statement of Financial Activities rather than any particular subdivision thereof for our analysis.

Findings:

- Whilst on average the percentage spent on income generation (often mostly fundraising costs) and governance by these 5,089 UK charities with income of over £1m was a reasonable 11%, this masked the amounts spent by many of the larger charities that take most of the public's donations and which often contain enormous fund raising operations
- For 50 of the UK's large charities, selected on the basis of the amounts coming from the public, the average ratio of income generation and governance costs expressed as a proportion of their total income was 22%
- The average for the 50 large charities was twice the 11% we found within our overall analysis of 5,089 UK charities and twice the comparable ratio for large US charities
- This ratio of 22% was found to be identical, whether measured on the basis of last year's accounts or the last three financial years combined. (For all the named charities in this report, we have used the three-year numbers in order to smooth out year to year fluctuations in their income or costs).
- 13 of the largest 50 UK charities analysed spent 30% or more on income generation and governance costs over their three most recent financial years
- While each charity may be able to cite specific factors to justify their performance or which makes them unique, the bigger picture shows there are fundamental questions about the sector's performance.

	Income Generation and Governance Costs Last 3 Financial Years Combined	Charitable Spending Last 3 Financial Years Combined
British Heart Foundation	61%	46%
Age UK	50%	48%
Battersea Dogs' And Cats' Home	42%	57%
The Guide Dogs For The Blind Association	39%	63%
Marie Curie	37%	66%
Shelter, National Campaign For Homeless People Limited	35%	64%
The People's Dispensary For Sick Animals	35%	68%
Blue Cross	33%	71%
Macmillan Cancer Support	32%	68%
The British Red Cross Society	32%	69%
Dogs Trust	32%	63%
The Salvation Army	31%	60%
The United Kingdom Committee For UNICEF	30%	68%
Church Of England Children's Society	28%	70%
Cancer Research UK	27%	63%
Royal Society For The Protection Of Birds	26%	70%
The Great Ormond Street Hospital Children's Charity	26%	74%
WWF - UK	26%	72%
Arthritis Research UK	24%	65%
Oxfam	24%	74%
Cats Protection	24%	61%
Help For Heroes	24%	36%
The British Diabetic Association	24%	68%
Barnardo's	23%	73%
Stroke Association	23%	72%
The Royal British Legion	22%	74%
Wateraid	21%	73%
The National Society For The Prevention Of Cruelty To Children	21%	75%
The Royal National Lifeboat Institution	19%	64%
World Animal Protection	19%	87%
The Donkey Sanctuary	17%	69%
Royal Society For The Prevention Of Cruelty To Animals	17%	77%
The Woodland Trust	17%	62%

	Income Generation and Governance Costs Last 3 Financial Years Combined	Charitable Spending Last 3 Financial Years Combined
Charity Projects (Comic Relief)	17%	101%
Plan International UK	17%	85%
The Royal National Institute Of Blind People	16%	86%
Actionaid	15%	83%
Christian Aid	15%	83%
The National Trust For Places Of Historic Interest Or Natural Beauty	13%	87%
Catholic Agency For Overseas Development	12%	88%
The Save The Children Fund	12%	85%
Medecins Sans Frontieres (UK)	8%	86%
Disasters Emergency Committee	8%	119%
BBC Children In Need	8%	78%
Elim Foursquare Gospel Alliance	7%	84%
Royal Commonwealth Society For The Blind	7%	93%
The Salvation Army International Trust	4%	70%
Roman Catholic Diocese Of Southwark Diocesan Trust	2%	96%
Watch Tower Bible And Tract Society Of Britain	1%	95%
The Church Of Jesus Christ Of Latter-Day Saints (Great Britain)	0%	95%
Average	**22%**	**74%**

Important: The ratio above, labelled 'charitable spending' has been calculated as the total amount spent on 'charitable activities' as a proportion of the charities 'total incoming resources'. The 'total incoming resources' includes income from trading subsidiaries as well as other sources.

All data has come from the latest available Report and Accounts as at 8 February 2016 and uses the same formulas as used by the Charity Commission in their Beta Website. The income and generation and governance percentage when added to the charitable spending percentage may not necessarily add up to exactly 100%, largely as a result of whether a charity has added to or spent from their reserves over the period.

For each charity the relevant data points were taken from the last three financial years and the sum of the three data points were used to calculate the 'Income Generation and Governance Costs' and 'Charitable Spending' percentages.

US Comparison

In the US, Forbes recently analysed the largest 50 charities[27]. These were selected based on the amount of private donations, as opposed to Government grants or revenue from the sale of goods or services. TFF analysed the proportion of total revenue spent on fundraising, management and general expenses for these 50 large US charities. We found these charities spent 10¢ per dollar on average, compared to an average fundraising, management and general expenses of 22p per pound for 50 large UK charities.

Key UK & US Charities data points used in the TFF analysis[28]

US Charity Data Points	UK Charity Data Points
Total Revenue (A)	Total Incoming Resources (A)
Total Expenses – Fundraising (B) + Total Expenses – Management & General (C)	Total Cost Of Generating Funds (B) + Governance Costs (C)
Total Expenses - Charitable Services (D)	**Total Charitable Activities (D)**

As TFF highlighted in our last report, the 'Hornet's Nest', the UK charities sector appears to be one of the very few sectors where 'economies of scale' are not passed on to the end customer; in this case, the deserving causes. One likely contributor to this situation is that many super-sized UK charities have huge fundraising operations with too many layers of intermediation, management and administration, thereby reducing the overall income available for the charitable purposes.

TFF's view is very much in line with that of the US Charity watchdog, CharityWatch[29] in relation to the absurd argument that fundraising costs do not matter:

"Fundraising companies, charity consultants and marketers love to divert donors' attention to cherry-picked program outcomes while encouraging them to ignore the amount of money charities pay to their businesses. But don't buy their argument that it's okay for charities to spend unlimited amounts of money on fundraising on the basis that doing so will eventually bring in more dollars for charities to spend on their programs.

The fallacy of this argument is that total annual giving in the US has remained steady for many years at about 2% of personal disposable assets. Charitable dollars are limited. So if donors ignore fundraising ratios and charities greatly ramp up their fundraising expenditures, billions of dollars could be shifted out of charitable programs and spent on fundraising instead. This would be great for fundraising businesses and consultants, but not so great for donors, charities, and the populations they serve."

[27] http://www.forbes.com/sites/williampbarrett/2015/12/09/the-largest-u-s-charities-for-2015/

[28] TFF has calculated the income generation and governance costs within the US and UK as: (B+C)/A. It calculated the Charitable Spending within the UK as D/A. For the US, data has come from Forbes.com who used data from IRS Form 990, annual report or statement of individual charities. For the UK, data came from the annual report of individual charities (normally found within the Statement of Financial Activities for the Year). A good guide to the UK charity accounts format can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/410515/Guidance_to_help_complete_the_annual_return_for_2015.pdf. Good US guides to the IRS Form 990 can be found at http://www.foundationsearch.com/Assistance/help-form990.aspx and https://www.guidestar.org/ViewCmsFile.aspx?ContentID=4208

[29] https://www.charitywatch.org/charitywatch-articles/overhead-ratios-are-essential-for-informed-giving/133

US National Centre for Charitable Statistics (NCCS)

TFF also looked at data from the NCCS and found the following to be of great interest.

Nonprofit Funding and Finances – FAQ Document[30]

Question: On average, what percentage of a nonprofit's budget is spent on fundraising? How are these expenses broken down? What percentage of an average public charity's budget is spent on overheads?

NCCS Answer: Most people who ask about the percentage of a charity's budget spent on fundraising or administration are really interested in knowing what percentage of the organisation's expenses are spent on programmes. ***"They want some assurance that the organization meets a minimum level of efficiency, that funds contributed are not just going to raise more funds and that its purpose is not to provide its own employees with jobs".***

Other US watchdog groups provide various guidelines for nonprofit management and fundraising activity. The following table provides several examples of different organisations' recommended standards.

Organization	Recommended minimum spending on program activity as a percent of total budget
BBB Wise Giving Alliance	65%
American Institute of Philanthropy	60%
The United Way of the National Capital Area	80%

[30] http://nccs.urban.org/faq/

Section 2 - UK Charity Shops

Charity shops are fiercely defended by large charity brands in terms of their profitability and wider social value. TFF sought to interrogate if these defences were justified.

UK Charity Shops – the Facts and Figures

- There are 10,500 charity shops in the UK and Republic of Ireland - 8,500 in England, 900 in Scotland, 500 in Wales, 300 in Northern Ireland, 300 in the Republic of Ireland[33]
- Based on the latest accounts available, the typical large charity shop chain makes just 17p profit per pound of revenue, once allowance is made for any central costs directly allocated to these shops.

Profit Margins of 10 of the UK's largest charity shop chains

	Profit Margin*	Number of Shops
Oxfam**	28%	700
Cancer Research UK	22%	579
British Red Cross	21%	320
Barnardo's	20%	640
British Heart Foundation	17%	735
Marie Curie	16%	193
Salvation Army***	15%	199
Sue Ryder	14%	458
Age UK	13%	428
Scope	5%	235
Average	**17%**	

*Profit margin is calculated from latest available Report & Accounts after deducting any allocated support costs.
**The Oxfam profit margin excluded revenue and costs associated with Oxfam Activities Limited and Frip Ethique.
***Based on operating profits of Salvation Army Trading Company Ltd which includes the Salvation Army charity shops and other trading activities.

When you consider that charity shops benefit from reduced business rates, reduced costs of goods sold (since most goods are donated) and reduced employment costs (due to the extensive use of volunteers), it is surprising that the average profit margin is just 17%.

TFF found one leading charity chain, Shelter, operating circa 98 shops in England, Scotland and Wales, which made an overall profit from these shops and mail order activities of just £133,000 on £9.6m of income, in their latest financial year. This equates to a 1% profit margin. The year before, they made close to a 2% loss.

Many charities access **eBay for Charity**[31] that enables sellers to donate between 10% and 100% of the final sale price of an item to a registered charity. Via a PayPal Giving Fund, it distributes those donations and Gift Aid to donors' chosen charities, from a list of over 10,000 charities, which then receive 100% of the funds raised[32]. Notwithstanding the fact that many charity shop chains already use such channels, and the data above, it is our view that such technology innovations would be much more efficient fundraising channels, rather than opening yet more charity shops?

[31] http://pages.ebay.co.uk/help/sell/nonprofit.html
[32] https://www.paypal.com/gb/givingfund/
[33] According to the Charity Retail Association (http://www.charityretail.org.uk/charity-shops/)

To put the typical charity shop 17% profit margin in context, it is lower than a well run high street retailer e.g. Next, that typically makes an 18% operating margin[34] without the extensive financial benefits and advantages afforded to charity shops.

Interestingly, the US charity, Goodwill Industries[35]**, which runs 3,000 charity shops, manages to convert 83% of its overall income into profit for charitable activities** (its charity shops account for the majority of its overall income).

TFF also found that today's UK charitable shops are becoming less and less a traditional charity shop where they received donated items free from the public for sale in their shops. 15% of the goods are not donated but bought in and even the Charity Retail Association estimates that 41% are sold on to commercial recyclers and 4% go to landfill[36].

Competition and Consumer Trends

There is also the competitive threat to today's charity shops from the emergence of low cost retail chains such as TKMaxx, Matalans, Poundland, and Primark which are attracting many of the customers previously visiting charity shops. This may indicate that there simply are not enough sales or customers to justify 10,000 charity shops in the UK.

In terms of consumer trends, we have witnessed the fast growth of e-commerce in the UK retail market, growing by 15.8% in 2015, with 16.2% growth expected in 2016[37].

This rate of growth for online sales will inevitably reduce the market for all shops, including charity shops. Yet the sector appears to be ignoring this trend with a relentless programme of store opening by many UK charity shop chains[38].

[34]The average operating margin for every six month period from 30/09/08 to 30/09/15 was 18%. This included the mail order operations. Similarly, many charities within their retail income benefit from mail order and internet related sales

[35]http://www.goodwill.org/about-us/

[36]http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10961849/The-secret-life-of-your-charity-shop-cast-offs.html

[37]http://www.retailresearch.org/onlineretailing.php

[38]In August 2013, the Mail on Sunday said research showed there had been a 30% increase in the number of charity shops in Britain since 2008 - taking the total to more than 10,000. http://www.bbc.co.uk/news/uk-25083483

Tax Relief

UK charity shops benefit from exemption from corporation tax on profits, a zero VAT rating on the sale of donated goods and 80% mandatory non-domestic rate relief on property taxes. This 80% relief is funded by central Government. A further 20% rate relief is available at the discretion of local authorities.

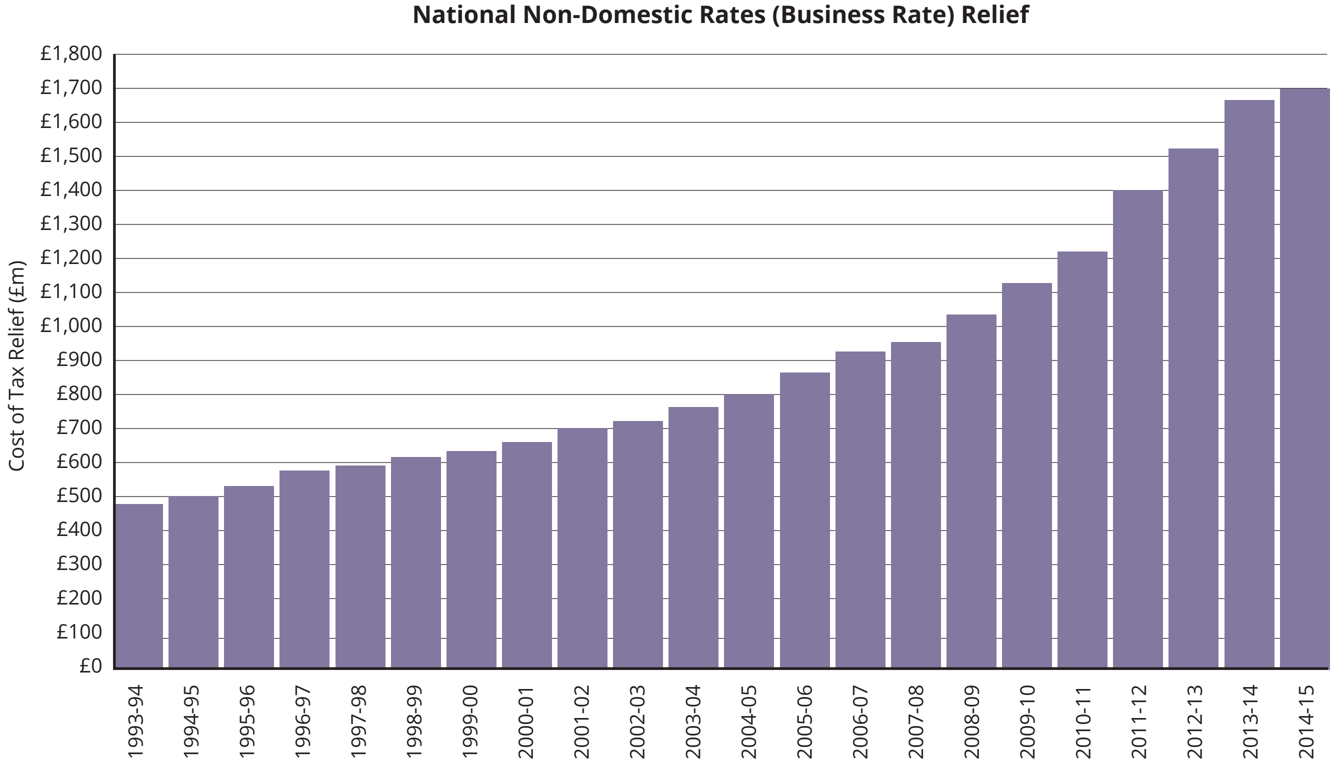
The profits from UK charity shops are estimated at around £290m[39] - but according to the figures below, it is estimated to cost between £273m and £1,558m pa in terms of business rates relief, VAT discounts and Gift Aid.

Cost of national non-domestic rate (business rate) relief	Estimates vary between £65m in England alone [1] to as much as £1,350m [2] in the UK
Cost of VAT discount	£170m (based on 20% VAT not paid by customers on the typical 85% sales via donated goods within overall revenue of £1Bn+)
Cost of Gift Aid	£38m (based on 25% gift aid being received on 15% of annualised charity shop revenue of £1Bn+)
TOTAL UK taxpayer subsidy to charity shops	Estimated between £273m and £1,558m pa

[1] According to the DEMOS report, http://www.demos.co.uk/files/DEMOS_givingsomethingbackREPORT.pdf?1385343669 the total government expenditure on business rates relief of 8,456 charity shops in England is £65.047m
[2] http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/12006254/Local-councils-hand-out-3bn-in-rates-relief.html

[39] According to the Charity Retail Association (http://www.charityretail.org.uk/charity-shops/)

The graph below shows the cost of one of these elements, the Business Rate Relief, within the entire charities sector (including charity offices and charity shops), has increased three fold since 1993[40].



Regarding the increase in business rate relief, the UK RPI index has increased by 89% between February 1993 and December 2015, whilst the the amount of Business Rates Relief has more than tripled over this period.

Social Value and Additional Charity Shop Benefits Questioned

There have been various reports that extoll additional benefits of charity shops[41]. For example, a 2013 report by Demos[42] estimated that the UK charity shops employed 17,296 staff. If we assume that the average salary of these staff is £17k pa, the Government would receive Income Tax and National Insurance (NI) of about £40.7m pa.

The social value attached to volunteers working within charity shops is also stressed by the Demos Report. But it could be argued that society would benefit more if these incredibly generous volunteers were better ‘employed’ working directly on charitable programmes of a particular charity, or in public services, schools etc, rather than standing in often empty high street charity shops.

There is also the question of competitive disadvantage to small or independent high street shops who do not benefit from the same amount of tax reliefs charity shops receive. This issue, combined with the fact that charity shops frequently occupy prime real estate, raises the question of a fundamental re-evaluation about how these locations are being used.

[40] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456405/CommentaryDocument.pdf
[41] http://fundraising.co.uk/2014/01/16/charity-retail-association-yet-alarmed-rise-negative-media-coverage/#.Vqtjz2crGUk
[42] http://www.demos.co.uk/files/DEMOS_givingsomethingbackREPORT.pdf?1385343669

It is also claimed that UK charity shops' reuse / recycling activities help reduce CO_2 emissions by approximately 3.7 million tonnes per annum[43]. The social cost of carbon on the global economy of a ton of CO_2 has been estimated by the US at $37 per ton[44], so this saves a further £91.3m pa (assumed exchange rate $/£ of 1.5).

Adding this £91.3m with the estimated Income Tax and National Insurance contributions of £40.7m, the combined £132m benefit does not begin to equate to the UK taxpayer subsidy to charity shops of between £273m and £1,558m pa.

Conclusion

TFF is not suggesting that any the charities named within this report are behaving in any way dishonestly or unethically. Each charity will have its own reasons for its particular structure in terms of raising funds, but TFF believes it is the duty of charities to look to shave off operational inefficiencies. We also believe there is a legitimate need for the public to better understand how charities' finances operate, the allocation of donations and whether charities are efficiency driven to ensure as much as possible of the money they receive is going to their stated purposes.

Some of today's supersized charities may argue that each extra pound spent on fundraising is worthwhile if it raises a penny more than the pound spent. TFF questions this argument especially when smaller charities and projects, often immersed in the community, are crying out for donations and support. As a society we cannot afford for smaller charities and the communities they support to become increasingly marginalised. As a recent report by Lloyds Foundation stated, we may only know the extent of the damage caused by the disappearance of small charities once they are extinct, at which time it will be too late[45].

If the amount given to the entire sector overall is not growing as a result of extra fundraising expenditure, then large charity fundraising empires are in reality simply increasing their share of the cake, but not the size of the cake itself. As the data shows there can be little doubt that 'share of voice' and donations are being overly dominated by big brand charities.

In our view the majority of charities, particularly smaller ones, have charity rather than self-enrichment in their DNA and are being unfairly penalised by some of the excesses found elsewhere in the sector.

The sector's first response is to be defensive, even arrogant, but given the statistics in this and the previous TFF report it is our view that self-regulation is not working. TFF believe the Government should be taking more responsibility for reforming the sector in terms of accountability and transparency, especially as corporate creep over the last ten years has evolved the big charities in the sector into complex structures and trading entities, aggressive cultures and high overheads.

To passionately help as many people as possible requires a dispassionate analysis of the hard data, infrastructure, practices, efficiency / waste and conflicts of interest. If inefficiencies and poor practice are not challenged and there is not an accelerated drive to accountability, the huge opportunity costs are borne by the vulnerable in society and, by inference, donors' capital which is increasingly coming from Government, hence tax payers, is not being deployed with the greatest effect.

[43] http://www.demos.co.uk/files/DEMOS_givingsomethingbackREPORT.pdf?1385343669
[44] https://www.whitehouse.gov/blog/2013/11/01/refining-estimates-social-cost-carbon
[45] http://www.lloydsbankfoundation.org.uk/assets/uploads/too-small-to-fail_Feb-2015.pdf

The Hornet's Nest Report: Facing Critics of the Report and the *'Miller Ratio'*

In the TFF Report published on 12 December 2015 entitled ***'A Hornet's Nest - A Review of Charitable Spending by UK Charities'*** [46], TFF raised the following serious questions to encourage a public debate about the charity sector:

1. Should there be an urgent review of the rules that allow organisations to be granted charitable status? Especially as this status means charities often pay less tax into the public purse, benefit from tax reliefs such as rent and rates, and often receive Gift Aid, which is essentially the public's money.
2. Is it now time for a voluntary or mandatory minimum annual dispersal rate to be set for charities? It is the view of TFF that a minimum annual dispersal rate of 65% should be debated.
3. Is there a need for a simpler accounting methodology to enable greater understanding by donors about charities' finances?
4. Does the sector require more financial oversight and accountability?
5. Why are donors - private, corporate and Government - not asking more questions about the charitable work being delivered by charities?
6. Is it time to impose a 'Give & Good label' across the charity sector which would clearly allow donors to see how much of annual income is being spent on the end charitable activities?
7. Should there be a periodic three-year review of organisations' charitable status?
8. Should there be limits on senior executive remuneration, including pension provision?

Only Point 2 has been commented on by the charity sector, normally in an overly emotional and irrational manner. The mere suggestion of a best practice benchmark for spending on end charity activities of 65% has sent the charity sector into a frenzy. TFF has never suggested this ***Miller Ratio*** should be the only metric donors use to assess a charity's effectiveness. It is only right that the financial performance of charities is open to scrutiny as this benefits the end beneficiaries and donors alike.

[46] http://www.trueandfairfoundation.com/content/file/feature/review-hornets-nest-report-into-charitable-spending-UK-charities-12-dec-15.pdf

The US Opinion on Charity Spending Ratios

In the US it is widely considered that a 'good' charity has a charity spending ratio of 66.6% - i.e. two thirds. For example, the Better Business Bureau Wise Giving Alliance Standards for Charity Accountability[47] suggests up to **35% for overhead costs.**

Sites like Charity Navigator[48] are very helpful tools that show US donors what percentage of their giving goes to support the mission of a non-profit, as opposed to administrative expenses. According to this highly respected charity rating organisation, if a charity is spending more than 33.3% of its total budget on overhead, the organisation is simply not meeting its mission. They state *'To be considered a charity that spends its money well, at least 66.6% of all donations should go directly towards programs that support the charity's programs.'*

CharityWatch[49] considers a charity to be highly efficient when its end calculations produce a Program % of 75% or higher, and a Cost to Raise $100 of $25 or less.

Conclusion

As donors, TFF stands by its belief that the charity sector needs to encompass accountability and quality assurance mechanisms. Defending the status quo at a time when we need to be encouraging individuals, philanthropists and corporates to give more of their time, talent and money to ensure a true and fair society is inexcusable and self-defeating. There needs to be greater focus on improving financial performance which should, in turn, bring about considerable rewards for the sector.

[47] http://www.bbb.org/
[48] http://www.charitynavigator.org/
[49] https://www.charitywatch.org/charitywatch-criteria-methodology

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