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Charities & Education

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CHARTERED ACCOUNTANTS

Charity 'leaking' around £6 billion of potential revenue

Charities in the UK are losing out on almost £6 billion of potential revenue every year. A report published by Sagacity has revealed that revenue was being lost as a result of poor processes, human error and inaccurate data. Around two-thirds of charities believe that this 'revenue leakage' is hurting their profitability and hampering growth, with 62% believing this was unavoidable.

Revenue leakage is defined as any unintentional loss of revenue. Lack of oversight, poor processes, governance and controls were the leading causes of lost revenue. This accounted for 14% of all leakage and cost charities £835 million annually. Other causes of revenue leakage were human error, poor reconciliation and inaccurate or incomplete data.

The report also revealed that 84% of charities believe that revenue leakage occurs as a result of mistakes when signing up new donors, such as signing them up for a single donation instead of an annual donation.

Around 60% of charities blamed third parties such as fundraising partners and agencies for the majority of their revenue leakage. Around 86% reported that third parties had passed details of new donors to them with data missing, which either prevented the charity from collecting the donation or made it impossible to claim the associated Gift Aid. More than half (58%) have had to pay commission to third-party agencies for donors who stop giving or decrease their donation amount.

Charities were also concerned about their limited ability to attribute donations to specific individuals. Almost 70% believe it is harder than it was ten years ago, and 92% are sometimes unable to claim Gift Aid as a result.

Charities are also finding it difficult to provide transparent information about how donations are spent, with 46% expressing worries that this could put them in breach of their reporting requirements under the Charities Act 2022. Half of the charities were concerned that a lack of transparency might result in negative media attention.

Around 62% thought they could double donations if they were able to make it clear to donors exactly how their money would be spent.

Many charities were also concerned that money is being wasted targeting one-off donors rather than long-term givers, and 58% believe that face-to-face fundraising agencies could be damaging their reputation, as well as costing them money.

Read more about the report at:
https://bit.ly/3TJ1pMj
and
https://bit.ly/4aDQx9b

Charities & Education

Single academies falling as multi-academy trusts grow

School leaders fear that smaller academy trusts are not being encouraged to grow in parts of England due to the expansion of multi-academy trusts (MATs) and a fall in the number of single academies.

In March 2023, the Government announced 'trust development statements' to expand, merge or create MATs in 55 'education investment areas', which are local authority areas in England that have the weakest school results.

The statements have resulted in a steeper fall in the number of single academy trusts in education investment areas than at a national level. According to analysis by Schools Week, the number of single academy trusts in education investment areas fell by 13% over the last year compared to 8% nationally.

Rotherham had the largest fall, with the number of single academy trusts falling from eight to only one. Since the introduction of trust development statements, the average size of a trust operating in an education investment area has grown by more than 11. This is compared to a national rise of 9%.

While some school leaders believe that the plans for creating larger academy chains has protected schools that otherwise would have faced financial hardship, others claim that smaller trusts are being excluded from expanding into new areas as the focus is on larger MATs. Overall, school leaders believe that trust development statements have brought more clarity to academy commissioning decisions, but improvements are still needed.

The Confederation of Schools Trusts has called for an independent national schools regulator to help make commissioning decisions, to ensure transparency and impartiality.

The statements also outlined the Department for Education plan for 'high quality trusts' to move into education investment areas if they are already operating in neighbouring local authority areas.

Read more about the plan at:
https://bit.ly/3TJwrnk

Charities facing increased demand and financial pressures

According to research carried out by the Charities Aid Foundation (CAF) in December 2023, half of all charities in England and Wales were operating at full capacity and were not in a position to help anyone else.

The research found that a combination of higher demand, lower income and rising costs had resulted in 61% of charities having to do more with less money compared to a year ago. Four in ten were using their reserves to meet operational costs and 38% were asking funders for more help.

Due to the pressures of the cost-of-living crisis, less than a third (31%) of charities claimed they had the capacity to help more people, while 15% had to turn people away. Around 12% of charities had been forced to reduce staff numbers or make redundancies, despite dealing with increased demand.

Of the charities operating at full capacity, 51% were making judgements to prioritise people who were most in need. More than a quarter (28%) had created a waitlist, and 9% had stopped taking any referrals. A quarter were scaling back their activities to focus on core services and 16% were considering whether to charge fees. In addition, 41% of charities were directing people to other organisations, many of which were under similar pressures themselves.

The research also found that the issues charities are dealing with have become more complex. Nearly half of charities report that people are coming to them in a state of extreme need compared with a year ago, and 40% are helping more people navigate public services.

Read more about the research at:
https://bit.ly/3J5tOaA
and
https://bit.ly/3J6LVg6

In brief...

New guidance on accepting and refusing donations

The Charity Commission has published new guidance to help charities in England and Wales decide whether to accept, refuse or return a donation. It clarifies that while trustees should start from a position of accepting a donation, there are certain circumstances under which trustees have a legal obligation to refuse or return a donation. The guidance outlines when a donation must be refused or returned, such as if it came from an illegal source, or if the donor does not have the mental ability to decide to donate.

Read more about the guidance at: https://bit.ly/4ajQhfL

Charities face ongoing banking issues

The annual sector survey of trustees by the Charity Commission has revealed that 42% of charities had experienced poor service from banks in the last 12 months. Overall, 6% of charities had experienced account freezes or had been blocked from accessing their account, while 7% reported that their bank had lost their records. The survey also indicated that 32% of trustees faced issues when trying to update their charity's contact details or signatories. Difficulties trying to open a new account, complying with identity requirements, and understanding bank requirements were also issues for charities.

Read more about the findings at: https://bit.ly/49iDjhj

Latest changes from Charities Act 2022 take effect

The Charity Commission has published updated guidance to help trustees determine whether changes introduced by the Charities Act 2022 apply to them. The latest set of changes, which came into force in March 2024, introduced a new power that makes it simpler for unincorporated charities to change their governing document. The Charity Commission has confirmed that trustees who have already applied to change their governing document do not need to resubmit their application. New rules covering gifts left to charities that have merged, as well as changes to charity-to-charity land disposals, have also come into force.

Read more about the changes at: https://bit.ly/49nLuZq

Charity employees taking less annual leave

The charity sector has recorded one of the largest drops in employees taking annual leave. The ‘Annual Leave Report 2024’ has revealed that average annual leave taken per employee in the charity and NGO sector fell by 6.04% year-on-year in 2023. Overall, the charity sector ranked 12th out of 18 sectors that gave up their annual leave. Work culture and expectations, staff shortages, and fear of falling behind are some of the main reasons why employees are taking less annual leave.

Read more at: https://bit.ly/4aYQjtN

More charities failing to read marketing opt-out requests

Figures from the Fundraising Regulator have revealed that the number of charities failing to read marketing opt-out requests almost doubled between August 2023 and January 2024. The regulator's Fundraising Preference Service allows individuals to make suppression requests and opt out of direct marketing communications from charities registered in England, Wales and Northern Ireland. Overall, 43 charities had not read 61 suppression requests as of January 2024. The Fundraising Regulator has warned charities that failing to act on requests within 28 days of receipt is a breach of its Code of Fundraising Practice.

Read more about the figures at: https://bit.ly/4aDqq2k

Local news provider becomes first to gain charitable status

The Guildford Dragon News has become the first local online newspaper to gain charitable status. The Charity Commission awarded charitable status to the newspaper after it was able to demonstrate that it delivered "public interest" news. Legal experts have stated that while charitable news provision is not yet established in the UK, this development could encourage other local news outlets to apply for charitable status.

Read more about charitable news provision at: https://bit.ly/3U4XdYP

Academy trust 'top-slicing' on the increase

Over a quarter (26%) of England's biggest multi-academy trusts (MATs) increased the charges used to pay for central services. Top-slice charges pay for central services provided by academy trusts, such as estates management, HR and IT, which some school leaders claim offers far better value for money than outsourcing.

Annual accounts for 2022/23 have revealed that 13 of the 50 biggest MATs increased their top-slice charges, 21 held them at the same level, and only 2 cut their fees. Two of England's largest academy trusts now top-slice almost 10% of their school budgets to fund central teams. However, a report by Kreston found that the average top-slice for large trusts was 5.4%, with small trusts tending to slice 7.4%.

Trust chiefs believe that running services in-house increases efficiency of services, frees up time for headteachers and provides more money for schools. It also allows for centralised contracts, rather than having to deal with multiple vendors. Data has shown that centralised trusts spend £130 more per pupil than non-centralised trusts (£7,289 on total costs per pupil, compared with £7,159). The percentage of trusts which have fully centralised functions across their schools has risen to 61%, up from 55% in the previous year.

Critics have highlighted that MATs have no say over the level of top-slice or on how the money is spent. This is refuted by others who claim that centralised services do not remove choice and allow leaders to be supported by experts from across the trust.

Trusts can also fund central services by GAG (General Annual Grant) pooling, which is where all schools' budgets are collected before allocating funds according to their own formula. Seven of the 50 biggest MATs currently employ this method, with more considering it. Local authorities also top-slice schools to fund their central services, and now have additional powers to top-slice school budgets to address the shortfall created by the scrapping of the £50 million school improvement grant.

Read more at: https://bit.ly/3xuNCkS

55% of charities maintained or increased fundraising income

More than half (55%) of charities maintained or increased their fundraising income in 2023. This is according to the 'Charity Pulse' 2024 report, which was based on a survey of decision makers at 202 UK charities.

The report revealed that charities were cautiously optimistic about fundraising in 2024, even though 52% of decision makers viewed the cost-of-living crisis as a significant challenge to raising funds. The current financial climate made 36% of decision makers reluctant to ask for donations, while 'donor fatigue' was a challenge for 29%.

Events and activities will be key for fundraising in 2024, with 53% of decision makers expecting this fundraising stream to raise more than in 2023. Just under half (49%) of decision makers believe charity supporters will be more focused on fundraising that involves fitness and taking part in physical challenges.

Around 70% of decision makers plan to get involved in events such as the London Marathon or to organise their own mass fundraising events.

In 2024, digital will also be vital for charities, with 63% of decision makers expecting there to be more opportunities to use digital channels than in 2023. Data protection is an issue, with 58% of decision makers worried about how supporters' data is collected and used by third parties.

The public's trust in charities is viewed as strong, according to the report. Nearly two-thirds of decision makers believe that people trust their cause, although 66% believe their supporters also expect them to avoid political discussions. Despite this, 58% stated that their charity was increasingly having to stand up for minority groups.

Read more about the report at: https://bit.ly/3VGFCrj

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