

Chapter 12

Expenditure

Highlights

- General charities' total current expenditure (staff costs, depreciation and the purchase of goods and services) was £24.9 billion in 2003/04.
- 89.5% of current expenditure was accounted for by charitable expenditure (the main activity heading in the charities SORP). The remaining 10.5% was spent on generating funds.
- Grant making is estimated to be worth more than £3.8 billion, of which £2.2 billion is distributed to the broader voluntary and community sector and £1.4 billion to public sector bodies, mainly universities.

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12.1 Introduction

This chapter looks at the voluntary sector's total current expenditure (all the outgoings of a charity in the financial year, excluding purchases of fixed assets and investments). Charities also incur capital expenditure (resources invested to acquire or upgrade physical assets that usually have a lifespan longer than 12 months); however, we have not been able to access more up-to-date estimates than those presented in the last Almanac.

The data on expenditure are for the financial years 2003/04, the latest available. Where possible, we have made comparisons with earlier years. All figures have been adjusted for inflation and are expressed in 2003/04 prices, so as to show real change.

12.2 Total current expenditure

The sector's total current expenditure in 2003/04 was £24.9 billion (Table 36). This is an increase of 2.6% on 2002/03, when expenditure was £24.2 billion. The increase in expenditure is lower than the increase in the sector's income in the same period, a likely result of the establishment of a small number of large, newly established, endowed foundations.

Table 36: Total current expenditure by size of organisation, 2002/03 and 2003/04

	Under £10k	£10-£100k	£100k-£1m	£1m-£10m	Over £10m	Total
2002/03 (£m)	288.7	1,827.7	5,128.2	7,057.2	9,929.1	24,230.8
2003/04 (£m)	288.6	1,679.5	5,467.4	7,538.5	9,886.8	24,860.8
Total change (%)	0.0	-8.1	6.6	6.8	-0.4	2.6
Total change (£m)	-0.1	-148.2	339.2	481.3	-42.3	630.0

Source: NCVO

The largest general charities (those with incomes of £10 million and over) saw expenditure remain relatively static in contrast to their incomes, which rose by 3%. General charities with incomes between £100,000 and £10 million saw the largest increases in expenditure (almost 7%) – rates of growth that were similar to their increases in income.

Table 37 shows the relationship between total income and total current expenditure. Expenditure is expressed as a proportion of income, although this analysis does not take into account any purchase of fixed assets (capital expenditure). In 2003/04 organisations spent, on average, 96.6% of their income on operating activities, a proportion that fell slightly from the 2001/02 benchmark (98.1%). However, this remains high by historical levels. As total income includes grants or resources received to enable the purchase of fixed assets, it is unsurprising that total income exceeds total current expenditure.

Table 37: Total current expenditure as a proportion of total income (%)

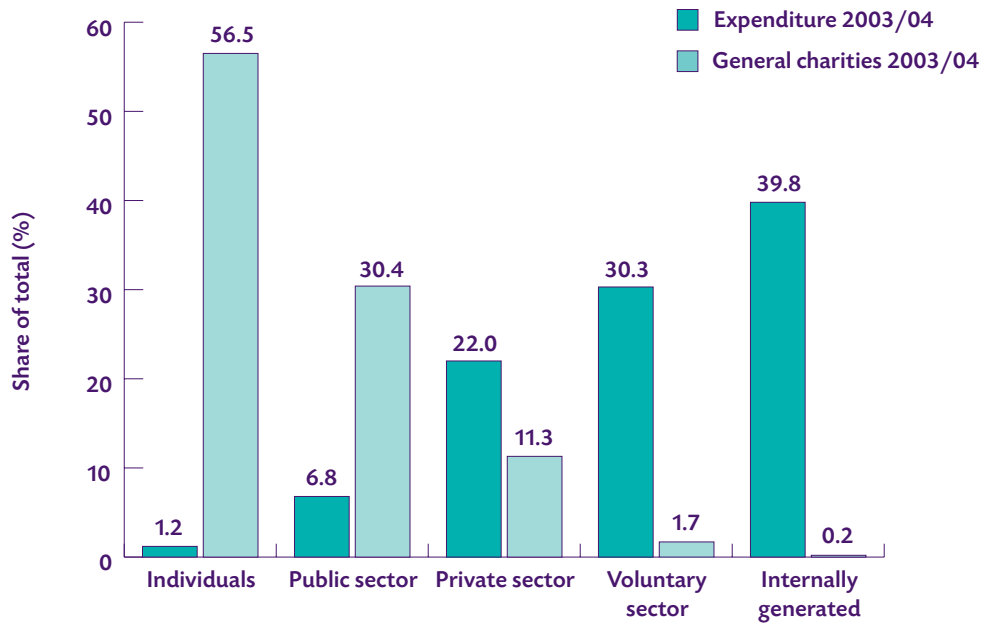
	Under £100k	£100k-£1m	£1m-£10m	Over £10m	All
1991	93.8	89.5	94.3	96.1	93.6
1994/95	89.8	89.5	90.8	97.8	92.4
2001/02	109.1	97.8	94.0	99.0	98.1
2003/04	96.8	96.7	92.9	92.3	96.6

Source: NCVO

12.3 The distribution of current expenditure

As with income, in 2003/04 the greatest proportion of the sector's current expenditure was accounted for by the largest organisations (Figure 28). General charities with annual incomes of over £10 million accounted for 38.9% of the sector's outgoing resources. Three-fifths of general charities had an income of less than £100,000, but this group accounted for only 2% of the sector's total current expenditure.

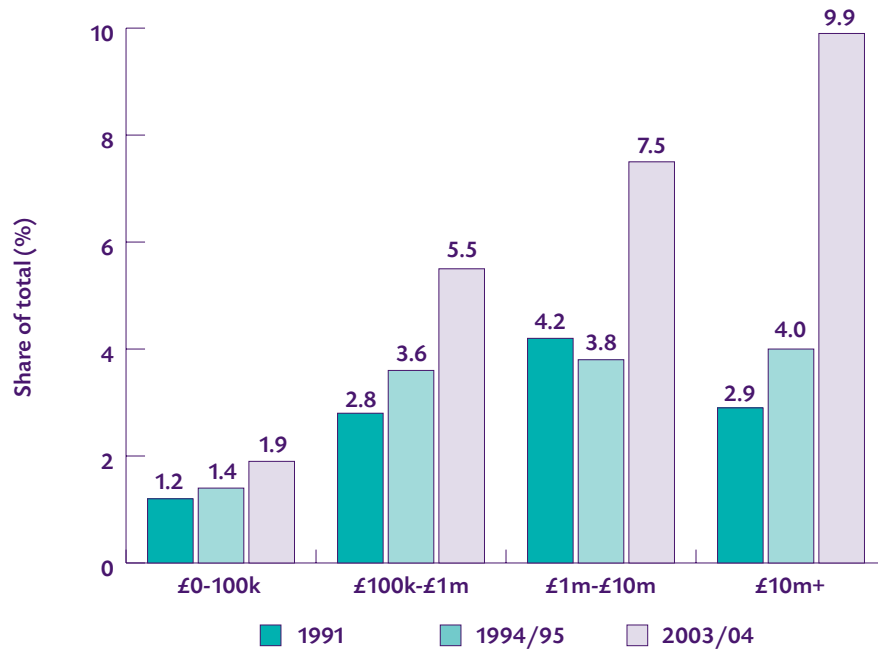
Figure 29: Percentage of organisations and share of total current expenditure by size of organisation (%)



Source: NCVO

Since 1990/91 (the first available data), the largest charities in particular have increased their level of expenditure. General charities with incomes over £10 million have seen their collective expenditure increase by £7 billion (Figure 29). This reflects an increase in the average expenditure of this group, as well as an increase in the number of organisations of this size. Smaller organisations have been less able to increase expenditure levels.

Figure 30: Total current expenditure by size of organisation, 2003/04 (£billion)



Source: NCVO, ONS

12.4 Categories of current expenditure

Charity accounting as defined by the 2000 Statement of Recommended Practice (SORP) accounting guidance splits expenditure into two overarching categories: the costs associated with generating funds, and charitable expenditure. The former applies to the generation of all types of income and therefore is not limited to conventional fundraising costs. It therefore covers the costs of trading subsidiaries, such as bought-in goods, and investment management charges.

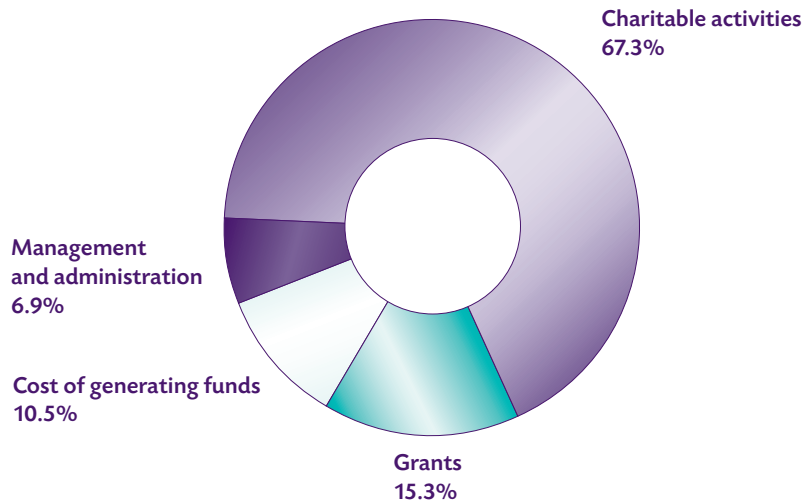
The second category, ‘charitable expenditure’, comprises the costs incurred by the charity in meeting its charitable objectives. This includes the cost of any grants made, the direct cost of any charitable activities undertaken by the organisation, and the cost of supporting these charitable objectives.¹⁶ This category also includes management and administration costs. Using the main expenditure headings, analysis shows that:

- the cost of generating funds accounted for 10.5% of total expenditure in 2001/02, equivalent to £2.6 billion; and
- charitable expenditure accounted for 89.5% of expenditure, or £22.3 billion.

¹⁶ Support costs have not been separately reported in the Almanac. They have been combined with ‘expenditure in furtherance of charitable objectives’.

These overarching categories can be further divided to illustrate the main functions to which expenditure is allocated. Estimates for 2003/04 are illustrated in Figure 30. Comparison with 2001/02 suggests that these categories are relatively similar. It is particularly worth noting that the 'cost of generating funds' category, covering fundraising activities, has remained under 11% of total expenditure.

Figure 31: Categories of total current expenditure, 2003/04 (%)

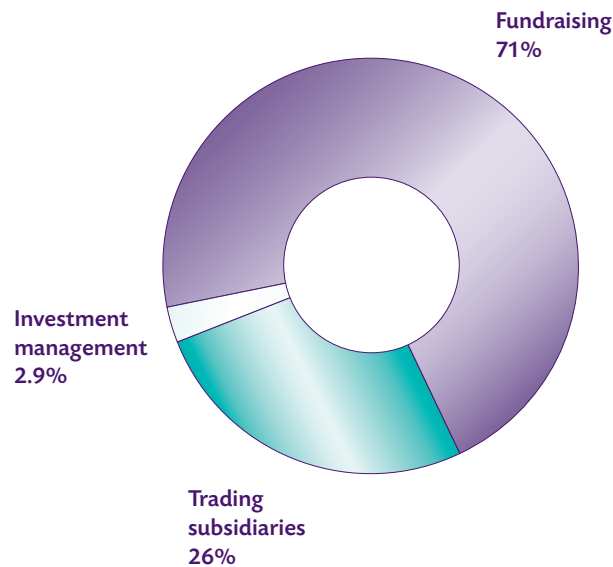


12.4.1 Costs of generating funds

The cost of generating funds accounted for 10.5% of total current expenditure in 2003/04, equivalent to £2.6 billion. Comparable data for 2000/01 suggest that as a proportion of total expenditure, this category has remained static (2001/02: 10.7%). General charities with incomes of £1 million or more account for 85% of expenditure on the generation of funds.

The total cost of generating funds can be divided into fundraising and publicity costs, investment management costs, and trading subsidiary costs. Fundraising and publicity accounted for almost £1.9 billion, or 71.0% of activities to generate funds. Investment management charges are estimated at £71 million. Trading subsidiary costs accounted for the remaining £678 million of expenditure, most of which was attributed to the largest organisations that have established trading subsidiaries. However, we believe this to be an underestimate, the most likely explanation being that some of these costs have been classified as fundraising expenditure.

Figure 32: Costs of generating funds by type, 2003/04 (%)



12.4.2 Charitable expenditure

As would be expected, charitable expenditure accounted for £22.3 billion, or almost 90% of the sector's current expenditure. More usefully, charitable expenditure can be further broken down into the amounts spent on:

- activities in furtherance of charitable objects;
- expenditure on grants; and
- management and administration.

Support costs have been included with expenditure on charitable activities and grants, where appropriate. These expenditure headings are discussed in more detail below.

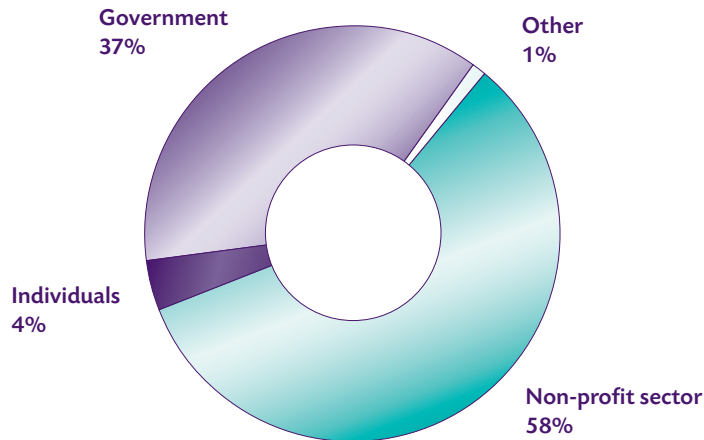
Activities in furtherance of charitable objects

In 2003/04 the cost of undertaking activities in furtherance of charitable objects (for example, the delivery of services) was the main type of charitable expenditure. The sector spent £16.7 billion on charitable activities in 2003/04. This category consistently accounts for around two-thirds of expenditure except in the case of organisations with incomes of less than £10,000. These organisations appear to spend a greater proportion of their expenditure making grants to achieve their charitable objectives.

Grants to other organisations and individuals

Grant making to both individuals and other organisations is an important feature of the voluntary sector. In order to achieve their charitable aims, general charities spent £3.8 billion on grants to individuals or other organisations. This represented 15.3% of the sector's total current expenditure.

Figure 33: Share of total grants by recipient, 2003/04 (%)



The recipients of these grants are shown in Figure 32. In 2003/04 the greatest proportion of grant expenditure went to other voluntary organisations (£2.2 billion). This highlights the links within the sector, and the importance of charitable foundations to the sustainability of the sector as a whole. However, the amount spent on grants to other voluntary organisations was significantly more than the £1.2 billion grant income received by general charities as income from other voluntary organisations (see Chapter 7). The explanation for this apparent anomaly is one of definitions: general charities gave grants to a broad range of voluntary organisations, some of which are excluded from the definition of the sector used in the Almanac. These may include exempt or excepted charities, or voluntary organisations based overseas.

A significant proportion of grant expenditure went to public sector organisations (36.5% or £1.4 billion). Recipients were predominantly higher education institutions (particularly universities undertaking medical research), schools and hospitals. Many small organisations, such as Parent-Teacher Associations, provided grants to statutory institutions.

Much of the remaining expenditure on grants directly benefited individuals. Grants to individuals were worth approximately £145 million in 2001/02, though comparison with previous benchmarks suggests this may be an underestimate. Finally, expenditure of £19 million was made on grants to other institutions in 2001/02. These recipients were mainly private sector organisations.

Trends in foundations' grant making

David Emerson, Chief Executive, Association of Charitable Foundations

Since their origins in responding to need in the Middle Ages, foundations have had an important role in supporting what is now the voluntary sector. This is not just through the value of their funding – expenditure on grants to voluntary organisations tops £2.3 billion – but through their focus. By offering what is largely unrestricted funding, frequently for innovative ideas, and often to charities serving those on the margins of society, foundations have had a crucial role: in the development of new ideas; in improved solutions to social welfare problems; and in the structure and growth of the sector itself. Predominantly their grant making has been responsive to the needs put to them, but more recently some foundations have been seeking greater evidence of the impact of their funding. Has it achieved what they intended? And what lessons might be learned where this hasn't been possible?

There is a feeling that – if as charitable grant-makers we have this crucial role in the voluntary sector, resulting from the independence that gives us freedom to support neglected causes, risky projects or politically unacceptable research – then we need to be more certain that our limited funds are being deployed as effectively as they can be. While these funds usually cannot support a project in the long term, and while foundations will not stop responding to applications, it does seem likely that more grant-makers may be taking a more proactive role or seeking an enhanced involvement with their grantees, as part of a process of ensuring the maximum impact of their funding.

Management and administration

The final type of charitable expenditure is management and administration costs. Management and administration cost the sector £1.7 billion in 2003/04 (6.2% of the sector's total current expenditure). Expenditure on management and administration varies significantly between sizes of organisation, and this is discussed in the following section.

12.5 Conclusion

The analysis in the chapter suggests that expenditure broadly tracks income but that in small contrast to the previous benchmark of 2001/02, parts of the sector are not spending more than they are generating. Although a low inflation environment is arguably restraining pressure on expenditure levels, there are of course other drivers that point to increasing costs – utility prices, pension scheme deficits and public sector salaries are on the increase, and these will inevitably feed through to the sector.

The other main challenge for the sector in relation to expenditure continues to be the presentation of information on expenditure. Revisions to the SORP categories, plus greater emphasis on explanation in trustees' annual reports, will bring greater clarity to explaining how organisations deploy their resources. Nevertheless, the sector as a whole will continue to be challenged over the presentation of key expenditure items and, in particular, on the issue of fundraising costs.

12.6 Resources and further reading

Centre for Interfirm Comparison – fundraising ratios: www.cifc.co.uk/fundratios05.html

Charities SORP 2000 and 2005. A number of the terms used in this chapter refer to the 2000 version of the charities SORP. This has, however, been superseded by the 2005 SORP, which has different reporting requirements:

www.charity-commission.gov.uk/investigations/sorp/sorp00docs.asp

www.charity-commission.gov.uk/investigations/sorp/sorp05docs.asp

Charities' Tax Reform Group: www.charitytax.info

The Finance Hub: www.financehub.org.uk

HMRC guidance for charities: www.hmrc.gov.uk/charities

Sayer, K (2003) *Practical guide to charity accounting*. London: Directory of Social Change: www.dsc.org.uk/acatalog/finance.html

Table 38: Breakdown of current expenditure by size of organisation, 2003/04 (£million)

Category	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	Total
Fundraising & publicity costs	2.2	60.1	233.8	458.2	1,096.90	1,851.20
Trading subsidiary costs	0.1	2.7	59.2	303	313	678
Investment management costs	1.8	6.1	15.8	26.5	26.3	76.4
Total cost of generating funds	4.1	68.8	308.8	787.7	1,436.10	2,605.50
Grants to individuals	16.3	13.8	23.1	15.9	75.8	145
Grants to the voluntary sector	143	301.9	550.4	626.1	613.5	2,234.80
Grants to the public sector	17	36	117.8	241.1	979	1,390.90
Other grants to institutions	0.1	4.2	6.6	16.6	9.4	36.9
Total grants	176.4	355.9	697.8	899.7	1,677.70	3,807.60
Charitable activities	87.8	1,055.60	3,739.30	5,284.10	6,560.80	16,727.60
Management & administration	20.3	199.1	721.5	567	212.1	1,720.10
Total current expenditure	288.6	1,679.50	5,467.40	7,538.50	9,886.80	24,860.80

Table 39: Breakdown of current expenditure by size of organisation, 2003/04 (%)

Category	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	Total
Fundraising & publicity costs	0.8	3.6	4.3	6.1	11.1	7.4
Trading subsidiary costs	0	0.2	1.1	4	3.2	2.7
Investment management costs	0.6	0.4	0.3	0.4	0.3	0.3
Total cost of generating funds	1.4	4.1	5.6	10.4	14.5	10.5
Grants to individuals	5.6	0.8	0.4	0.2	0.8	0.6
Grants to the voluntary sector	49.5	18	10.1	8.3	6.2	9
Grants to the public sector	5.9	2.1	2.2	3.2	9.9	5.6
Other grants to institutions	0	0.2	0.1	0.2	0.1	0.1
Total grants	61.1	21.2	12.8	11.9	17	15.3
Charitable activities	30.4	62.9	68.4	70.1	66.4	67.3
Management & administration	7	11.9	13.2	7.5	2.1	6.9
Total current expenditure	100	100	100	100	100	100