

State of the Sector V Expenditure



7. Expenditure

This chapter looks at the voluntary and community sector's total expenditure. The data is for the financial year 2006/07, the latest available. The data presented in this chapter is made up of estimates based on the analysis of 530 sets of accounts. Where possible, comparisons have been made with previous years.

Voluntary and community organisations spent an estimated £544.4 million in 2006/07. This figure is 95.4% of total income for the voluntary and community sector in 2006/07. There has been little fluctuation over the years in the amount of money spent by organisations as a proportion of overall income. This evidence suggests there is very little spare capacity in the sector in terms of generating reserves. However the rise in income derived from earned income (as reported in Chapter 5) means there is greater flexibility for organisations to generate modest reserves.

The amount of money organisations spend on generating funds has increased since 2003/04. The costs associated with generating funds represent 3.7% of total expenditure (£20.2 million). This is an increase from 2003/04 when £10.76 million (1.8% of total expenditure) was attributed to the cost of generating funds. This could be as a consequence of falling income which gives rise to increased competition for funding and may result in organisations putting more effort and money into applying for funding, promoting fundraising campaigns or developing tradable activities.

The amount spent on generating funds varies greatly across different sub-sectors. The sub-sector with the highest proportion of expenditure going towards generating funds is the health and wellbeing sub-sector with 10.6% of total expenditure in this sub-sector spent on generating funds. This is as a consequence of this sub-sector receiving 75.6% of its total income (£90.8 million) from the general public which necessitates the expenditure of considerable sums on fundraising and publicity.

Expenditure on training for staff in the voluntary and community sector continues to fall. In 2006/07 estimates based on the accounts of 530 organisations suggest that £3.6 million was spent on training staff (0.7% of total expenditure). The level of expenditure on training has fallen from 2003/04 when £5.2 million was spent on training (0.9% of total expenditure).

Over the next 12 months 46.3% of organisations believe that they will increase their expenditure. Nearly one in three believes that expenditure will remain unchanged, while 12% believe that it will decrease within the next year.

Expenditure is often believed to be a better indicator of the health of voluntary and community organisations than the more unpredictable flows in income. The other reason expenditure is a good barometer of the economic size of the sector is that it is arguably subject to more scrutiny than the incoming resources discussed previously.

The analysis of expenditure uses the SORP^[13] expenditure headings that are required in the accounts of voluntary and community organisations. SORP 2005 amended how management and administration costs were recorded and introduced a section for governance costs^[14]. Therefore direct comparison with previous *State of the Sector* reports is only possible at a global level.

However, a number of sub-categories in the accounts have been extracted to provide a more detailed overview of expenditure. These categories include areas such as training, insurance costs, depreciation, audit and professional fees and staff costs.

7.1 Expenditure profile

It is estimated that the annual gross expenditure of the voluntary and community sector in Northern Ireland for the financial year 2006/07 was £544.4 million. This

13 A SORP is a Statement of Recommended Practice. SORPs provide recommendations for accounting and reporting, in particular, how accounting standards should be applied in the context of particular sectors and how to account for sector specific transactions.

14 Governance costs include the cost of governance arrangements which relate to the general running of the charity as opposed to direct management functions, inherent in generating funds, service delivery and programme or project work (www.charitycommission.gov.uk).

Table 7.1 - Breakdown of overall expenditure (2006/07)

	Expenditure £ million	%
Cost of generating funds	20.3	3.7
Charitable activities	467.6	85.9
Governance costs	11.4	2.2
Support costs	29.6	5.4
Grants and donations	14.3	2.6
Other	1.2	0.2
Total	544.4	100
% of expenditure	95.4	

equates to 95.4% of total income.

As can be seen in Table 7.1 the single largest item of expenditure relates to the charitable activities of voluntary and community organisations (86.9%). Changes to the SORP have meant that direct comparison with 2003/04 is not possible. The next most significant item of expenditure is on the cost of generating funds. This represents 3.7% of total expenditure and shows all the funds spent by organisations to generate resources. This is an increase from 2003/04 when £10.76 million (1.8% of total expenditure) was attributed to the cost of generating funds. This does not however suggest that organisations are now spending more on generating income than ever before. It may be as a consequence of a number of issues such as better reporting or a wider application of the SORP across the sector.

That aside, the evidence presented in Chapter 5 would suggest that as income falls, competition for funding increases and therefore organisations need to put more effort into applying for funding, promoting fundraising campaigns or developing tradable activities. In the final analysis it is difficult to state with any confidence why the costs of generating funds have increased.

One area where there has been a significant decrease is in the levels of money spent on grant giving. In 2003/04 organisations distributed £30 million (5.1% of total expenditure) compared with £13.7 million in 2006/07 (2.6% of total expenditure). This fall in grants and donations made by voluntary and community organisations is partly reflected in the overall decline of income from voluntary organisations and charitable trusts. However the figure of grants and donations made by voluntary and community organisations does not correspond with the level of income reported in Chapter 5. This apparent lack of correlation between the income and expenditure figures in relation to grant giving is explained by the fact that the analysis for this chapter focused only on organisations based in Northern Ireland and as such does not take into account the high number of UK and international trusts and foundations that fund activities in Northern Ireland.

As mentioned in the introduction to this chapter the analysis conducted to estimate overall expenditure also examined some sub-categories of what organisations spend their money on.

The following categories were examined:

- **Staff costs** – includes salaries for paid staff and associated costs such as pensions and National Insurance contributions.
- **Interest/bank payments** – this category attempts to determine how much money voluntary and community organisations spend on bank charges and interest payments.
- **Audit and professional fees** – this category looks at the amount of money spent by voluntary and community organisations on conducting audits and on fulfilling other financial and legal requirements.
- **Depreciation** – relates to expenditure associated with the depreciation of capital assets.
- **Training** – covers the amount spent by organisations on providing staff training and development.
- **Insurance** – is the amount spent by voluntary and community organisations to ensure the activities they undertake are adequately covered.

As is shown in Table 7.2 the categories included in this analysis, with the exception of staff costs and depreciation, are all relatively small components of overall expenditure. It should be noted that these figures should be viewed with some caution as not all the sets of accounts analysed directly reported these categories.

Table 7.2 - Expenditure by sub-category

	Expenditure £ million	%
Staff costs	£280.4	51.5
Interest/bank payments	£0.8	0.1
Audit and professional fees	£1.3	0.2
Depreciation	£9.8	1.8
Training	£3.6	0.7
Insurance	£1.9	0.3
Total expenditure	£544.4	

As can be seen in Table 7.2 expenditure on employing staff in the voluntary and community sector totalled £280.4 million in 2006/07 (51.5% of total expenditure). This represents a decrease from £312.3 million (52.9% of total expenditure) in 2003/04. As is shown in Chapter 9 the number of individuals employed in the voluntary and community sector has fallen and this is reflected in the decrease in overall staff costs.

One area of interest is the amount of money spent on staff training. In Chapter 9 the average size of training budgets is discussed. It was estimated that the average annual training budget in voluntary and community organisations is approximately £4,258. This equates to an average of £145 per employee^[15]. As shown in Table 7.2, £3.6 million in 2006/07 was spent on training staff (0.7% of total expenditure). As mentioned before this figure should be treated with some caution

as not all the sets of accounts analysed for this report listed staff training as a heading. Nevertheless the figures in Table 7.2 and Chapter 9 would point to a very low level of expenditure in relation to staff training. The level of expenditure has fallen from 2003/04 when £5.2 million was spent on training (0.9% of total expenditure). It has been widely reported and commented upon that when funding becomes more competitive and efficiencies have to be sought it is often the training budget that is the first to suffer. The analysis presented here would suggest that we are seeing this trend developing.

Despite a reduction in the overall level of expenditure in the sector, when organisations were asked to predict future levels of expenditure a more positive view was articulated. According to the *State of the Sector V* survey over the next 12 months 46.3% of organisations believed expenditure will increase. Nearly one in three believed that expenditure will remain unchanged while 12% believed that it will decrease within the next year. This is of course a generalised view of how much money organisations are planning to spend over the next 12 months but it nevertheless gives an idea of the confidence, or otherwise, organisations have in their future.

As would be expected there is a variation across the voluntary and community sector in relation to how much organisations spend and what they spend their money on. Table 7.3 examines expenditure levels for each of the main sub-sectors.

As can be seen in Table 7.3, the level of expenditure as a percentage of total income varies

Table 7.3 - Expenditure by sub-sector (2006/07)

Sub-sector	Expenditure £ million	%	% of income	% charitable activities	% cost of generating funds	% staff costs
Advice and information	30.0	6.3	102.5	85.8	0.7	51.5
Arts/cultural/heritage	11.4	2.4	94.8	82.4	6.5	38.4
Community development	57.2	12.0	99.8	76.2	3.1	33.7
Disability	86.7	18.2	96.0	96.3	0.6	68.8
Education/training	25.6	5.4	92.0	81.0	1.0	57.2
Environment/conservation	6.4	1.3	85.1	87.1	3.2	36.1
Health and wellbeing	114.8	24.1	95.5	78.2	10.6	37.6
Housing/homelessness	25.7	5.4	97.2	92.7	3.0	45.8
Older people	23.0	4.8	96.7	91.3	4.2	53.4
Volunteer development	9.8	2.0	104.1	34.1	0.8	30.1
Women	12.3	2.6	93.4	94.3	0.4	55.4
Young people and children	74.0	15.5	88.0	87.8	1.5	47.7
Total (£ million)	476.9	100	95.4	85.9	3.7	51.5

quite a lot across each of the sub-sectors. For instance, there are two sub-sectors (advice and information and volunteer development) where expenditure exceeds total income. It should be noted that the analysis of expenditure and income does not take into account movement of funds from reserves, etc, so although it looks like organisations are running at a deficit, it may not actually be the case. It is also worth noting that organisations in both these sub-sectors are very reliant on voluntary income (82.0% and 92.9% of income respectively

is in the form of grants) and this could be a contributing factor to expenditure exceeding income.

Another area of expenditure that exhibits signs of significant variation is in relation to the costs associated with generating funds. The sub-sector with the highest proportion of expenditure going towards the costs of generating funds is the health and wellbeing sub-sector. As can be seen in Table 7.3, 10.6% of total expenditure (£12.2 million) is spent on generating funds. This figure

seems disproportionate compared with the other sub-sectors but a few factors have to be taken into consideration. For instance, the health and wellbeing sub-sector receives 75.6% of its total income (£90.8 million) from the general public and therefore organisations in this sub-sector have to spend considerable sums of money on fundraising and publicity. Another sub-sector which reports relatively high levels of expenditure in relation to generating funds is the arts/cultural/heritage sub-sector. Organisations in this sub-sector spend an estimated 6.5% of total expenditure on generating funds which could be a result of the costs of administering events or producing materials as part of wider fundraising activities.

Finally, Table 7.3 examines the percentage of total income spent on staff costs. The sub-sector with the highest staff costs is the disability sub-sector where 68.8% of total expenditure goes towards salaries, national insurance and pension contributions. The disability sector is also the largest employer in the voluntary and community sector and accounts for 21.3% of the voluntary and community sector's overall workforce (see Chapter 9). Organisations in the disability sub-sector also receive 82.5% of their income in the form of earned income (sales of goods and services) which is often unrestricted which gives the organisation more flexibility as to how the funds are spent and allows them to direct funds to areas deemed most appropriate by the organisation to deliver a service. Interestingly there are a number of sub-sectors that display relatively low levels of

expenditure on staff costs. The sub-sectors with the lowest expenditure on staff costs are volunteer development (30.1% of total expenditure), community development (33.7% of total expenditure) and environment/conservation (36.1% of total expenditure). All these sectors have a few things in common, they rely on substantial amounts of their funding in the form of voluntary income (92.9%, 80.0% and 79.1% respectively) and each sub-sector has a relatively low proportion of total staff. For instance, the community development sub-sector accounts for 27.0% of all organisations in the voluntary and community sector but these organisations employ only 10.2% of the sector's overall workforce. Therefore organisations in this sub-sector are small in terms of the number of staff and therefore the salary bill is relatively low. Organisations in these sub-sectors also have an income base that is almost entirely grant based, therefore generally restricted in nature, so the scope to pay salaries that have not already been negotiated with the funder may be limited.

This is a generalisation but the analysis in this chapter points to a clear link between levels of expenditure, the nature and type of funding an organisation receives and the activities it undertakes.

State of the Sector V is the latest edition in the *State of the Sector* research programme. The previous *State of the Sector* reports have developed the only comprehensive picture of the scale and scope of the economic activities of the Northern Ireland voluntary and community sector. The publication of each *State of the Sector* report represents another step in the evolution of this type of statistical analysis and as such adds to the already broad and in depth knowledge of the sector, by examining many of the key issues currently affecting and shaping it.

State of the Sector V provides high level statistics on the various types of resources available to the sector and the relationship between voluntary and community organisations, government, funders and the general public.

State of the Sector V is invaluable to all those who need an up-to-date and reliable source of statistics and commentary on the voluntary and community sector in Northern Ireland. People working in the sector — academics, decision-makers, social science students and journalists — will all find this publication useful.



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