Themes and trends in charity registrations

More than just a number

Contents

Overview & key findings	1
Charity Commission analysis	2
New registrations: facts & figures	3
Survey findings in detail: trusteeship & governance	10
Spotlight on ... governance issues at registration	18
Annex: survey methodology	21

Overview

This registration bulletin presents key facts and figures on newly registered charities in the first half of the financial year 2011/12. Some of the charities which were registered during this period are existing charities that were previously exempt from registration, rather than newly established ones, but we have used the term 'new charities' throughout the bulletin for simplicity. This bulletin is the first in what will be a series of bulletins, produced on a regular basis with updated register figures. In this first bulletin we examine trusteeship. In addition to the register data, it includes findings from a survey of applicants to the charity register which focussed on trusteeship issues such as recruitment, training and diversity. We also present some illustrative case studies that highlight governance challenges that new charities sometimes face.

Key findings

- From 1 April to 30 September 2011, just over 3,000 organisations joined the register of charities.
- Of the new charities, 713 provided their gross income as recorded in their latest set of published accounts. The combined total annual income of these charities alone was £500 million.
- The mean income of these 713 charities was £700,000 whilst the median was much lower at £29,000 per charity[1] These figures reflect the finances of well established organisations rather than new ones that are just starting out.

1 The median is the middle value in a range of values arranged in sequence by size. The mean, or average, is determined by adding up all the numbers and dividing by the number of numbers.

- Only 6% of these 713 charities reported their income to be above £1 million whilst 69% declared their income to be below £100,000.
- Over half (56%) of the new charities work in education & training, a third have 'general charitable purposes', a quarter work towards the prevention or relief of poverty and a quarter are engaged in religious activities.
- Over half (59%) of newly registered charities provide services (as opposed to making grants, for example). This is a much higher proportion than all charities currently on the register (34%).
- London and the south east saw the highest growth in new charities, Wales and the north east the lowest.
- The average age of trustees was 51, six years younger than the average across the rest of the register.
- Of those that responded to the online survey, 97% of charity register applicants were confident of securing funding in future, with exactly half feeling 'very confident'; the most common source of funding was donations and legacies (67%).
- 39% of organisations were seeking to recruit trustees; the most common method was internal recruitment from existing staff, volunteers and members (56% recruited in this way).
- 60% of respondents sought to recruit trustees from diverse backgrounds, such as black and minority ethnic groups, disabled people, young people, refugees and asylum seekers.
- Two fifths of respondents said their organisation did not provide any training or support to trustees.
- Fundraising was the main area in which respondents felt they needed to boost their trustees' knowledge and expertise (38% identified this as their first priority).
- Charity Commission registration caseworkers dealt with a range of governance issues including trustees' independence and conflicts of interest and loyalty.

Charity Commission analysis

This first registration bulletin offers an insight into the profile of organisations that have just recently joined the register of charities. In the period April 1 to September 30 over 3,000 new charities joined the register. Clearly, there are many groups and organisations that are seeking entry onto the register. These range from small, community-based operations that have no paid staff or premises, to large, established organisations that, due to changes in their circumstances or requirements of new legislation, are seeking to register.

Whilst there are variations in size, there is also diversity in terms of how and where the new charities operate. Over half of them work in education whilst a quarter are engaged in religious activities. 52% serve children and young people and around one fifth serve the elderly. London and the south east saw the highest growth in new charities, Wales and the north east the lowest. In many respects, the

make-up of the new charities mirrors that of the entire register of around 160,000 charities, but there are some differences. It is interesting to see that a greater percentage of new charities are engaged in service delivery than that of the register as whole. This could reflect the gradual shift towards service delivery we have seen in the charitable sector in recent years, perhaps partly due to a shift in government funding away from grants to contracts.

Analysis of register data also reveals that the average age of new charity trustees is 51 compared to a sector average of 57. In our 2010 research report, A Breath of Fresh Air: young people as charity trustees, we explored barriers to young trusteeship and encouraged charities to make board opportunities available to young people. Although it remains to be seen whether these latest figures reflect a long-term trend, the Commission is pleased to note this boost to the numbers of younger trustees.

Board diversity is an issue we also tackled in an online survey aimed at charity register applicants. The 119 responses received provide an interesting snapshot of the experiences of registering charities in relation to certain trusteeship issues. It is encouraging to see that 60% of respondents actively recruit trustees from diverse backgrounds, such as black and minority ethnic groups, disabled people, young people, refugees and asylum seekers. Similarly, the Commission welcomes the finding that almost three quarters of would-be registered charities deliberately target recruitment based on the skills and knowledge that their board needs.

However, work is needed to ensure that these new charities recruit more widely to find the best candidates for the job. Whilst many respondents have not yet had any problems recruiting trustees, they are largely dependent on the organisation's existing staff, volunteers or members, personal connections and 'word of mouth' to appoint new trustees. In future, these organisations may wish to broaden out their recruitment strategies by advertising vacancies externally to as wide an audience as possible. This will not only help the organisation seek out the most talented individuals; it also has the potential to enrich board diversity.

Based on these survey findings, the Commission would like to see more training and support being offered to the trustees of newly registered charities (40% said they did not provide any). Being a trustee carries with it a responsibility to ensure that charitable resources are used lawfully and effectively. It is essential that such individuals are equipped with the skills and knowledge necessary to carry out their duties properly.

Finally, the survey respondents were confident in their ability to find funding in future. This is in spite of a recession and significant retrenchment in government spending. Against the odds, then, hundreds of new charities are being set up every month and they are optimistic about the future. Charitable endeavour is alive and well.

New registrations: facts & figures

The following analysis provides information on charities that were registered from 1 April to 30 September 2011. Comparisons are made with all registered charities based on the information provided to us both at registration and in their Annual Returns.

Registrations & removals

A total of 3,003 organisations joined the Charity Commission's Register of charities in the period 1 April to 30 September 2011. Of these, just one was a subsidiary charity.

3,192 charities were removed from the register in the same period. 164 of these were subsidiary charities.

Previous Commission analysis of removals data found that the most common reasons for removal from the register were that charities had ceased to operate, become inactive or spent or transferred their funds to another charity.

Average age of trustees

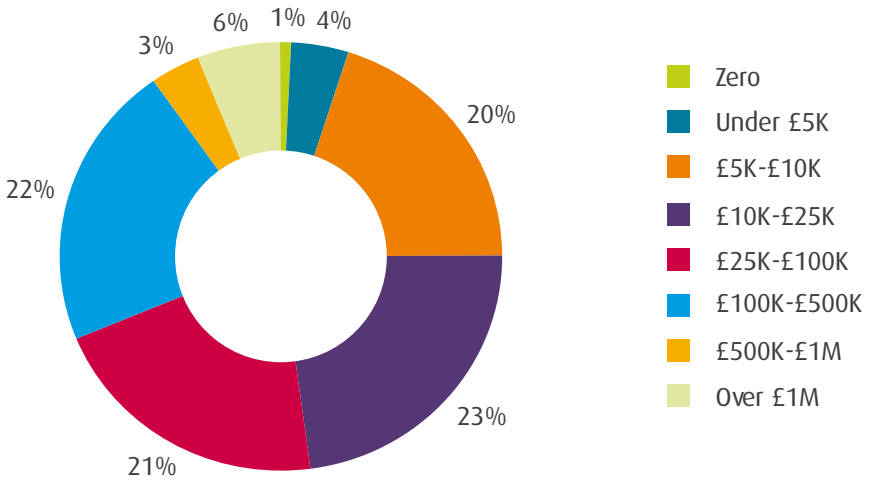
When charities are registered we ask their trustees to provide some personal information, including date of birth. From this, we can calculate the average age of trustees. The average across the whole register is 57, whereas the average age of the trustees of newly-joined charities is 51.

Income

Prior to registration, applicants are asked to provide details of their annual income. Many organisations do not yet know what their income will be or only expect to receive funding after registration. As a result, some register applicants provide only a rough estimate whilst others simply do not provide anything; clearly, this data is patchy and unreliable as an indicator of income.

However, if register applicants are already well established organisations, and have previously published a set of financial accounts, they are asked to supply the gross income as recorded in these accounts. In total, 713 charities provided this. Although these figures do not tell the whole story they nevertheless offer a snapshot of the considerable resources coming into the charitable sector in this six month period.

Chart 1: declared income of new charities as recorded in published accounts



69% of the charities have annual incomes below £100,000 whilst the remaining 31% declared their income to be above this threshold. Very few organisations recorded an income below £5,000. This can be explained by the fact that charities with an income of no more than £5,000 are no longer required to register. The Commission will not usually register such charities.

The total combined income of the charities is £501 million. The mean is £703,000 whilst the median is much lower at £29,000.[2] Chart 1 undoubtedly reflects the finances of larger, established organisations that have been in existence for some time prior to charity registration. It is likely to exclude some of the smaller, informal groups that are just starting out.

Changes introduced by the Charities Act 2006 mean that a number of existing charities that were previously exempt from the requirement to register are now required to register with the Commission. For example, during this period a number of formerly exempt charities such as students' unions and the independent colleges of Oxford, Cambridge and Durham Universities have been registered. This may help to explain the high incomes that some of these new charities have reported at registration.

Charitable activity

The most common charitable activity the new charities are engaged in, by some distance, is education/training (56%). This is followed by general charitable purposes (33%), the prevention or relief of poverty (25%) and religious activities (25%). Just 23 charities (1%) promote the efficiency of the armed forces or the emergency services.

This breakdown is similar to the full charity register, although there are some minor differences, as table 1 shows. Whilst charities engaged in religious activities account for 19% of all those on the register, 25% of the new charities work in this area. Similarly, the prevention or relief of poverty accounts for 25% of the new charities, whereas only 18% of all charities are engaged in this type of work.

However, the number of environment, conservation and heritage charities appears to be growing more slowly; 11% of all registered charities work in this field but only 9% of the new entrants. It remains to be seen whether these figures form part of a longer term trend.

2 The median is the middle value in a range of values arranged in sequence by size. The mean, or average, is determined by adding up all the numbers and dividing by the number of numbers.

Table 1: what charities do

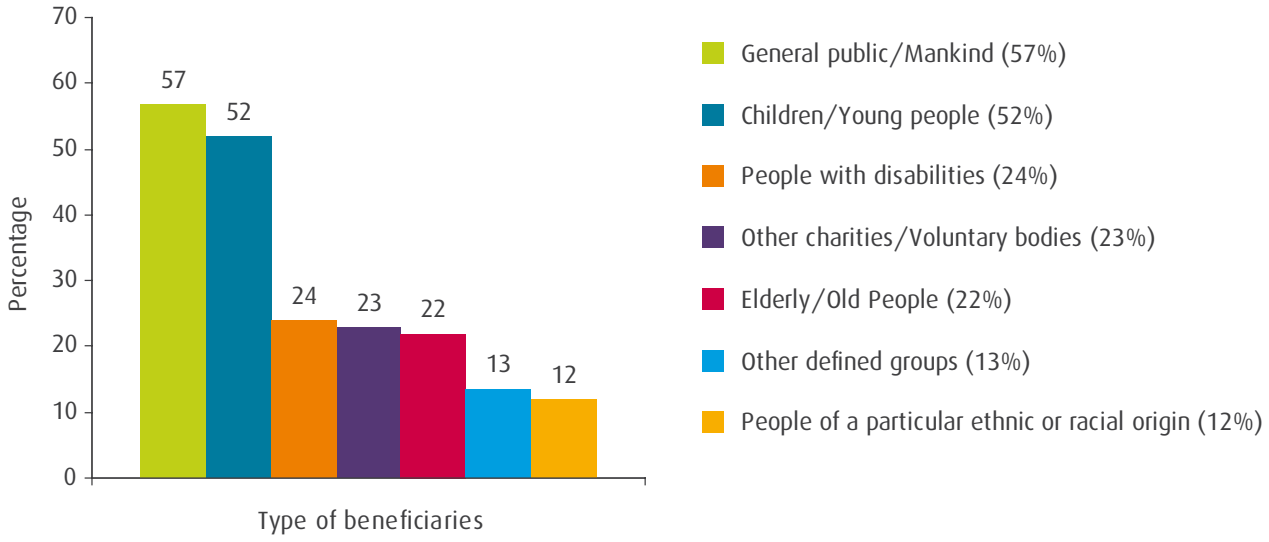
Description	No of charities (joined April – Sept 2011)	Percentage of new charities	Percentage of all charities on the register
Education/Training	1673	56	51
General Charitable Purposes	982	33	30
The Prevention or relief of Poverty	756	25	18
Religious activities	740	25	19
The advancement of health or saving of lives	696	23	15
Arts/culture/heritage/science	544	18	17
Economic/Community development/ Employment	534	18	12
Disability	412	14	13
Amateur Sport	410	14	20
Recreation	327	11	1
Overseas aid/Famine relief	284	9	7
Environment/Conservation/Heritage	262	9	11
Accommodation/Housing	171	6	6
Human rights/religious or racial harmony/ equality or diversity	123	4	0
Other charitable purposes	105	4	4
Animals	78	3	2
Armed forces/emergency service efficiency	23	1	0

NB: Charities can tick more than one area of activity so percentages add up to more than 100. Decimals have been rounded down. The areas of 'human rights/religious or racial harmony/equality or diversity', 'recreation' and 'armed forces/emergency service efficiency' were only recently introduced as categories on the registration form; percentages are therefore higher in these areas than across the register as a whole.

Who the new charities serve

The chart below shows that over half (57%) of new charities serve the general public/mankind; a similar number (52%) work with children and/or young people. Just under a quarter (24%) serve people with disabilities and around the same proportion serve other charities or voluntary bodies (23%). This distribution is similar to that seen on the full register of charities, although a higher proportion of the newly registered charities serve the general public or the whole of humankind (57%) when compared to all charities on the register (44%).

Chart 2: who the new charities serve



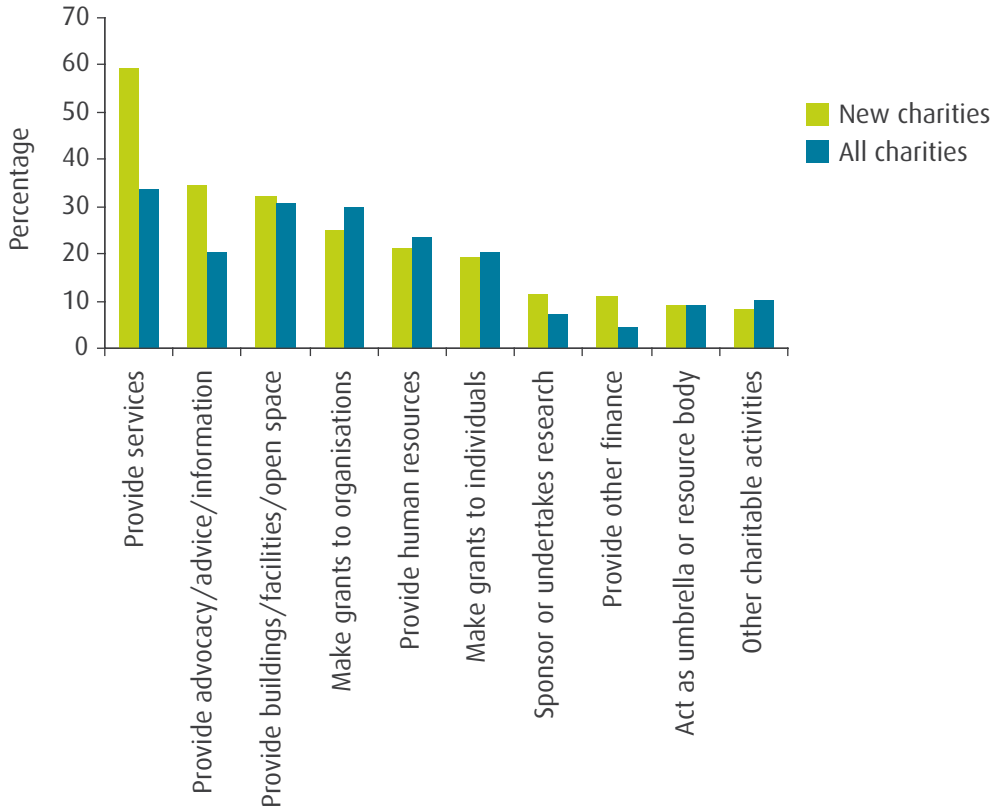
NB: At registration charities can tick more than one type of beneficiary so percentages add up to more than 100.

How the new charities operate

The majority of the newly registered charities (59%) are engaged in service provision; around a third (35%) provide advocacy, advice or information. A similar number (32%) provide buildings, facilities or open spaces. The least common types of operation are acting as an umbrella or resource body (9%) and 'other charitable activities' (8%).

Chart 3 below compares the methods of operation of charities that registered in the period April – September 2011 with those of the whole register of charities. Whilst the overall distribution is similar, there is a striking difference in the percentage of charities engaged in service provision. Whilst well over half (59%) of new charities provide services, only 34% of all registered charities do this. Similarly, over a third (35%) of the new charities provide advocacy, advice or information; just 21% of all charities do this.

Chart 3: how the new charities operate

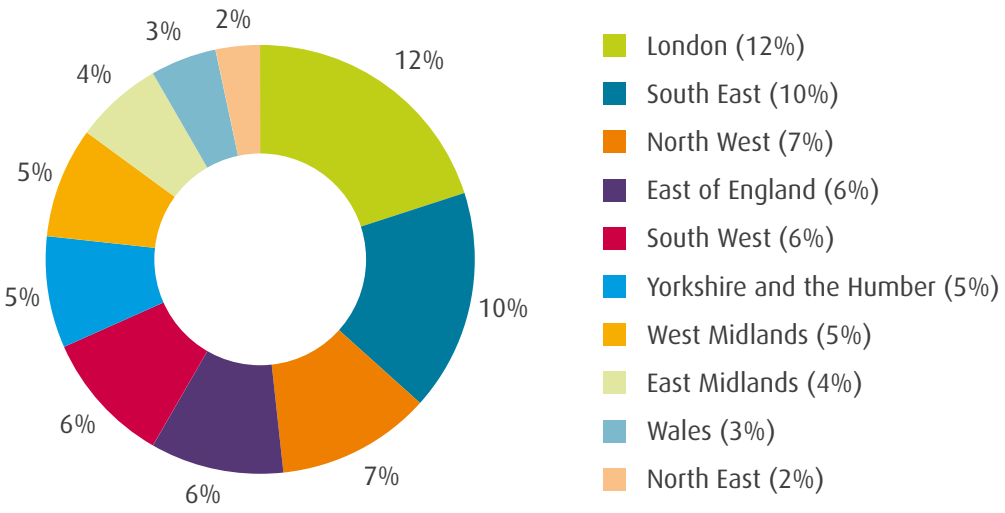


NB: At registration charities can tick more than one method of operation so percentages add up to more than 100.

Geographic coverage/area of operation of new charities

Based on the information provided by charities at registration, it is possible to provide a regional breakdown of where the majority of new charities operate. Chart 4 shows that London and the south east saw the highest growth (22% of all new charities). Most of the other regions account for around 4% - 7% of new charities, with Wales and the north east accounting for the smallest numbers (3% and 2% respectively).

Chart 4: region of operation of new charities



NB: This chart excludes those charities working in more than ten Local Authority areas and those working only overseas. This is why the percentages do not add up to 100.

Around half of new charities (49%) operate locally, with only 9% of them working over a wider geographic area. 13% of new charities work outside England and Wales.

Area of Operation	Number of charities	Percentage
Local (fewer than ten local authority areas)	1474	49
Outside England and Wales	404	13
Wider geographic area[3]	278	9
Unknown/not captured	847	29

NB: Each charity is only counted once, however many areas of operation it has. The 'widest' area of operation takes precedence eg a charity that works overseas but also in a local area in England will only show up as 'outside England and Wales'.

3 Throughout England and/or Wales OR throughout Greater London

Survey findings in detail: trusteeship & governance

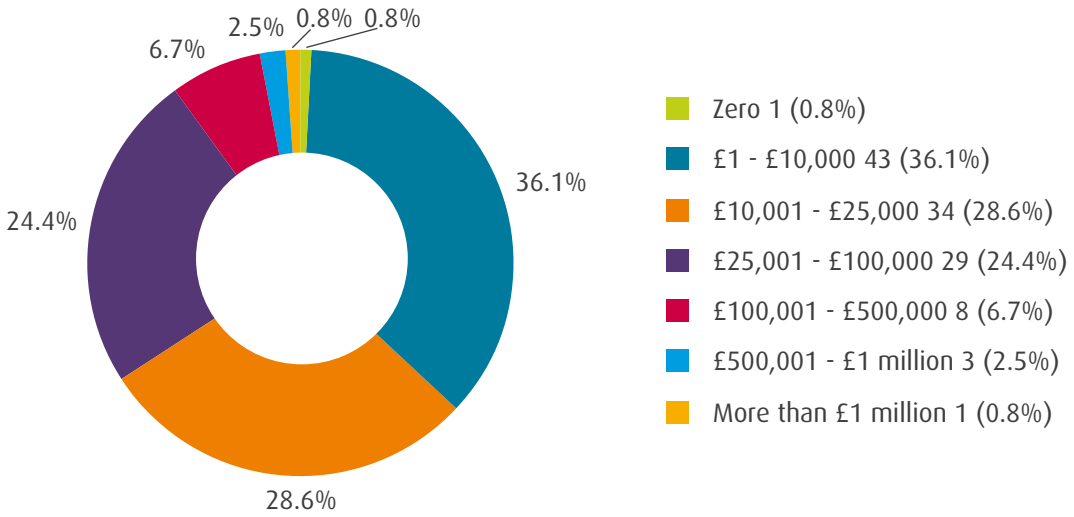
In line with the trusteeship theme for this first bulletin, we surveyed 119 charity register applicants using an online questionnaire. Participants were invited to fill in the survey following the completion of their online register application[4]. It focussed on trusteeship issues but also looked at funding. The key findings are presented below.

Income and funding

We asked respondents to tell us about their annual income. Rather than asking them to provide an exact figure, survey participants were asked to categorise their level of income based on the income brackets shown in chart 5. New organisations were asked to estimate their income.

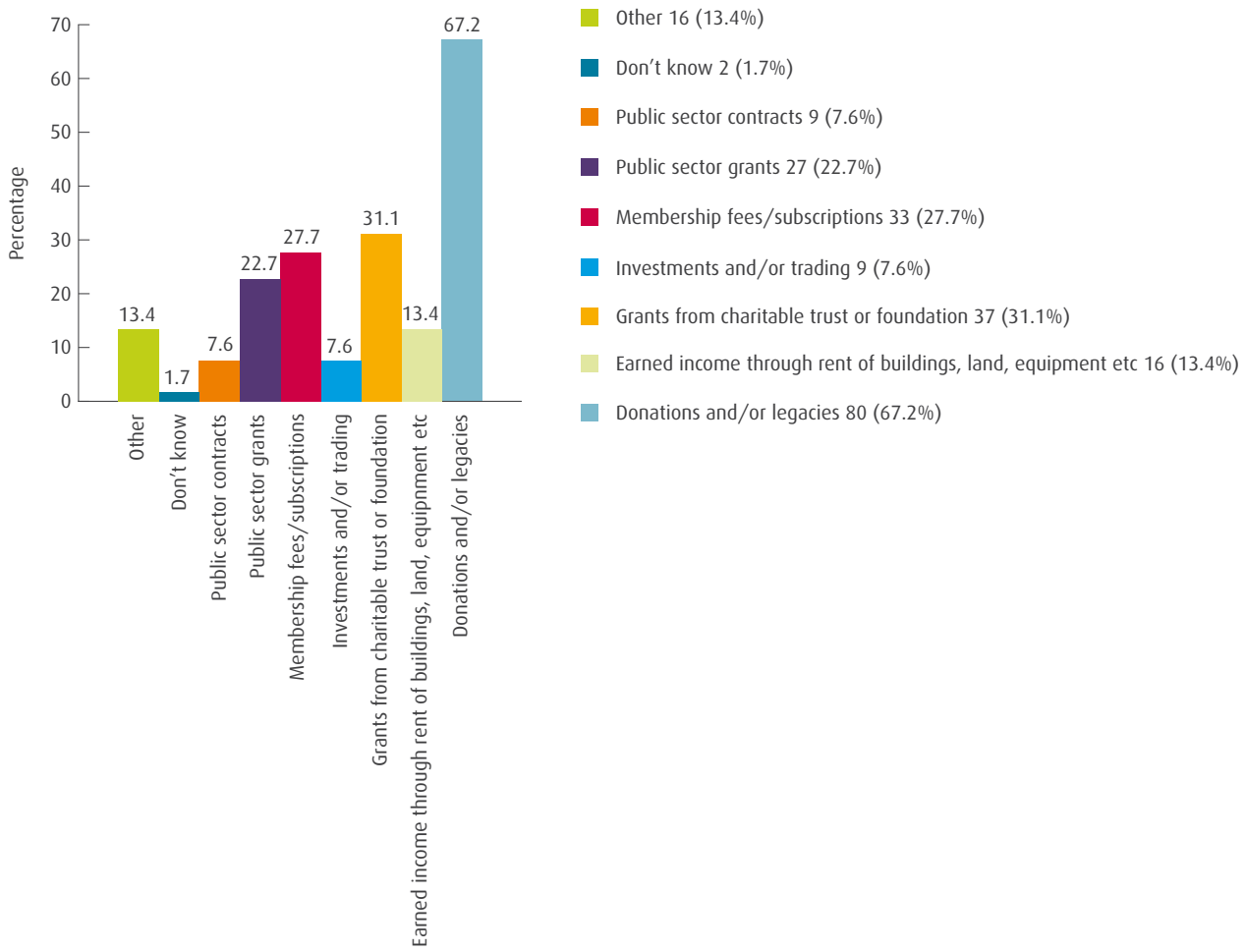
The majority of respondents said their income was small: 36% of respondents stated they had an income in the range of £1 - £10k and 29% put themselves in the £10k - £25k bracket. Just 1% claimed they had an income over £1 million.

Chart 5: income of survey respondents



4 Around 70% of register applicants eventually make it onto the register of charities. These survey results therefore reflect the experiences of applicants to the charity register and not charities themselves. For this reason we refer to them as organisations rather than charities.

Chart 6: sources of income

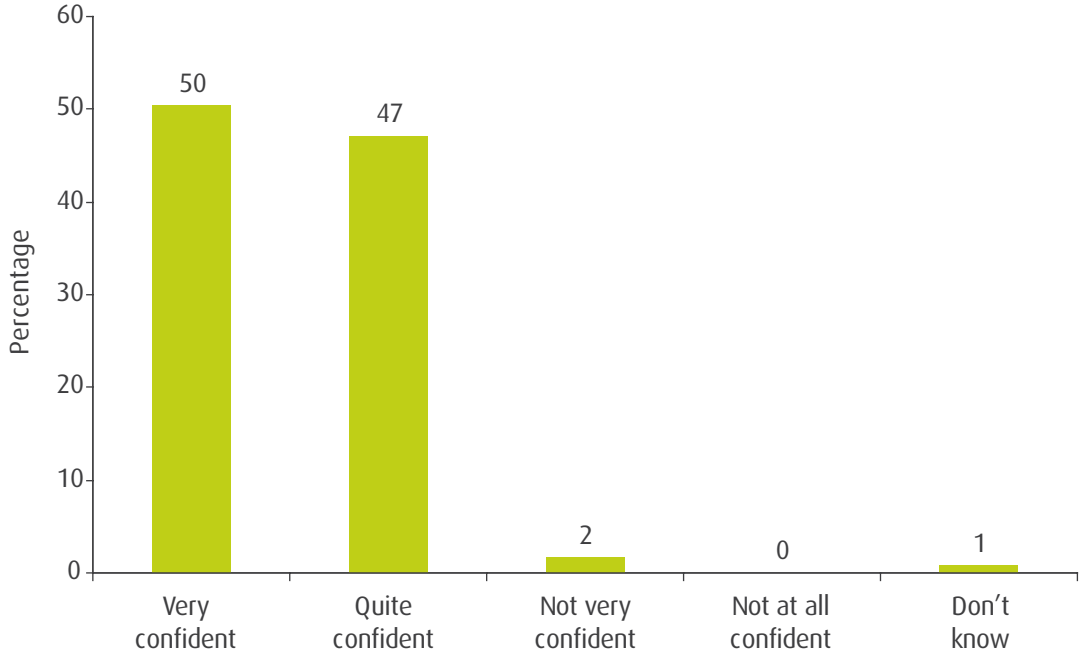


NB: Survey respondents could tick more than one source of funding so percentages add up to more than 100.

By some margin, the most common source of funding was donations, including legacies (67%). This was followed by grants from charitable trusts and foundations (31%). Around a quarter (28%) received income from membership fees and subscriptions and a slightly smaller number were in receipt of public sector grants (23%). Few respondents were involved in public sector contract delivery (8%).

Whilst the majority of questions focussed on trusteeship and governance, charity register applicants were also asked how confident the trustees were in their organisation's ability to fund its work over the next few years. Chart 7 shows that the overwhelming majority felt confident (97%). Exactly half were 'very confident' and 47% were 'quite confident'. A mere 2% of respondents were 'not very confident'.

Chart 7: confidence in future funding



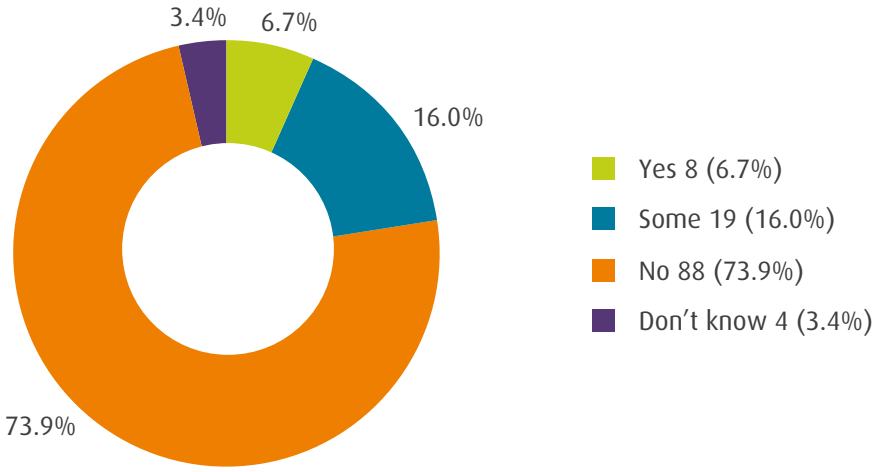
On the one hand, such optimism is surprising given the current financial climate and government spending cuts. On the other, many of these organisations are new 'start-ups' and it is natural that they expect to be able to fund their work. If they had too many doubts about this, they probably would not attempt to register the organisation in the first place.

Trustee recruitment

Firstly, we asked respondents whether or not their organisation was seeking to recruit a new trustee or trustees. Around two fifths of respondents (39%) said they were looking to recruit, whilst 57% said they were not (4% responded 'don't know').

Chart 8 shows that the majority of respondents had not yet faced any problems in recruiting people to their board (74%). However, previous Charity Commission research has found that 39% of charities do find it difficult to recruit trustees[5]. It is therefore to be expected that some of these organisations will face challenges with trustee recruitment in future.

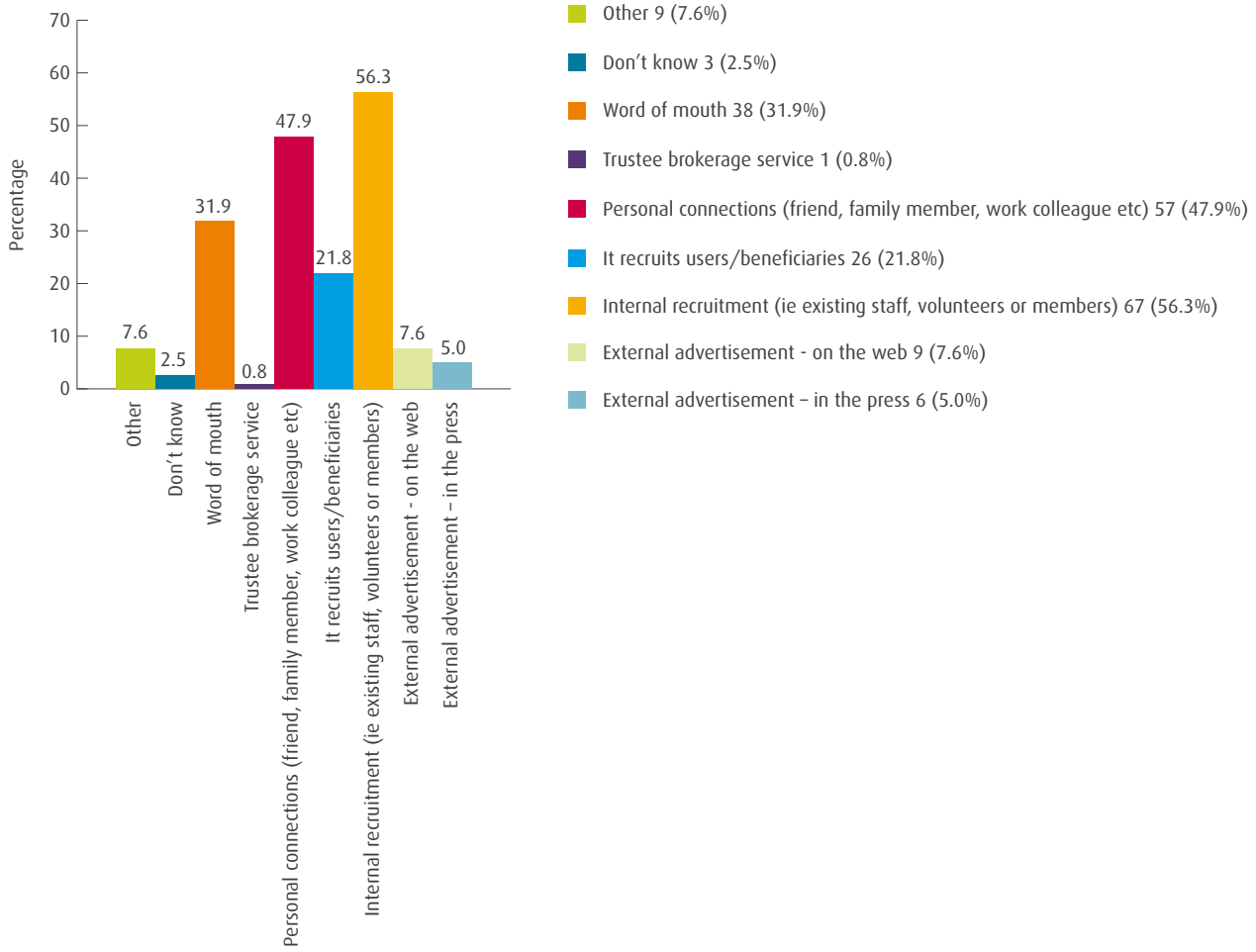
Chart 8: has your organisation experienced any difficulties in recruiting trustees?



In terms of methods of trustee recruitment, the survey respondents did not tend to advertise trustee vacancies externally, either in the press or online. Instead, they relied mostly on the organisation's existing staff, volunteers or members (56%) and personal connections such as friends, family members, and colleagues (48% had recruited trustees in this way). 'Word of mouth' appointments were also common (32%).

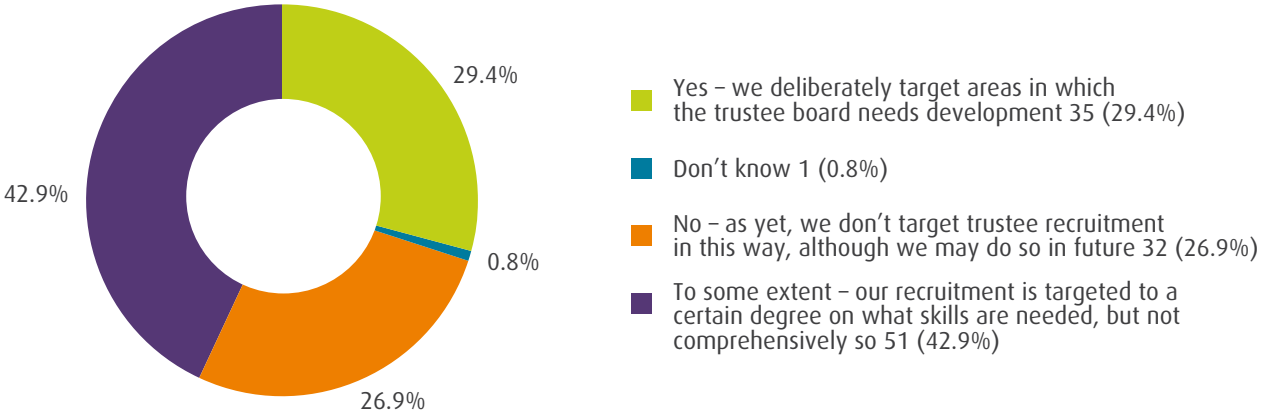
5 Charity Commission Research Report: *Start as you mean to go on: Trustee Recruitment and Induction* (2005)

Chart 9: methods of trustee recruitment



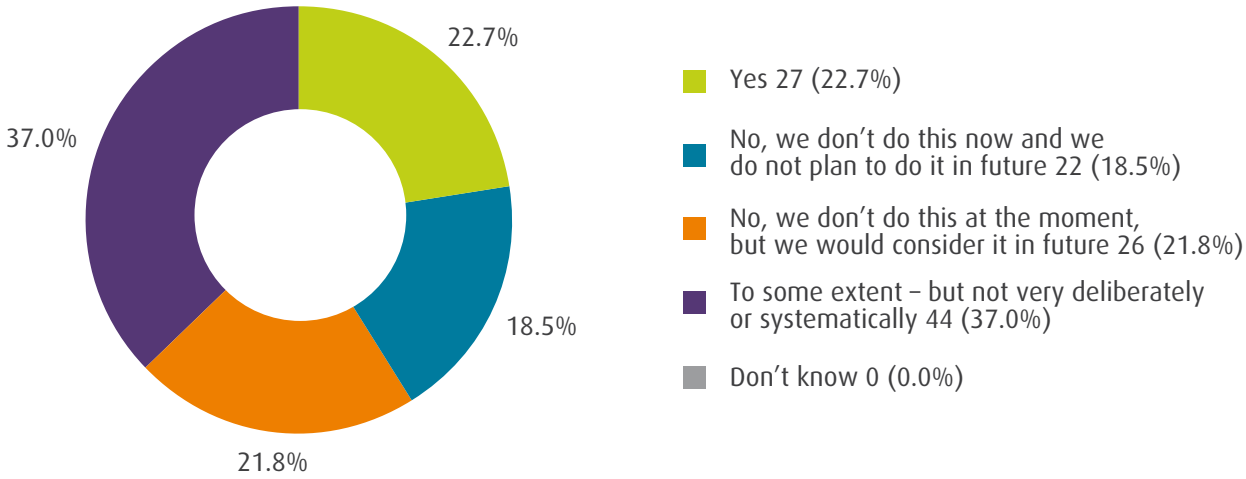
Respondents were asked how they targeted their recruitment, if at all. 29% said they deliberately targeted areas in which the trustee board needed development and 43% said their recruitment was targeted to some extent on the skills and knowledge needed. 27% said they did not yet do this.

Chart 10: does your organisation deliberately recruit trustees with certain, specific types of knowledge and skills?



In terms of deliberately recruiting trustees from diverse backgrounds, for example black and minority ethnic groups, disabled people or young people, the majority of register applicants (60%) said that their organisation did this. Almost a quarter (23%) simply responded 'yes' whilst 37% said they recruited trustees from diverse backgrounds 'to some extent'. However, a sizeable minority (40%) did not recruit in this manner; of these, around half (19% of the total sample) said they had no intention of doing so in future.

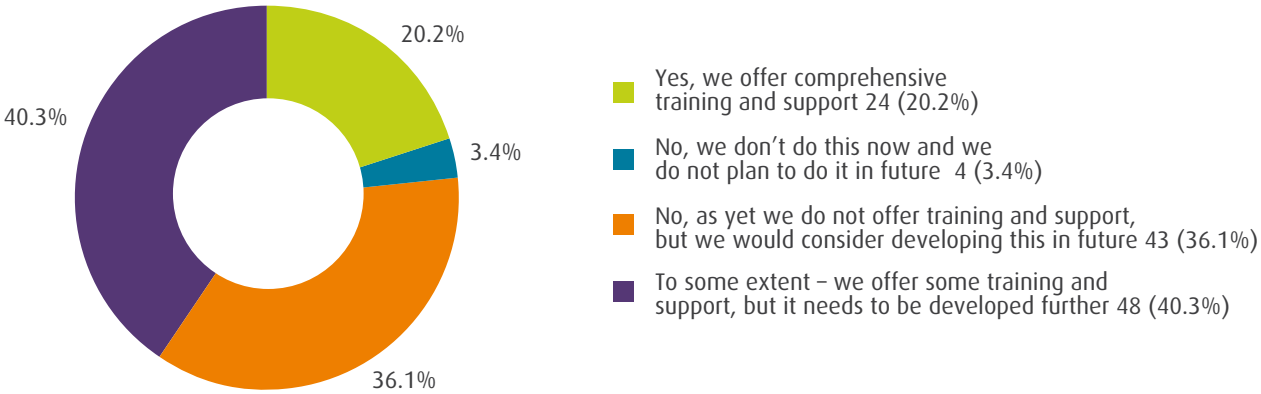
Chart 11: Does your organisation deliberately recruit trustees from diverse backgrounds (eg black and minority ethnic groups, disabled people, young people, refugees and asylum seekers)?



Trustees' skills and development

Respondents were asked whether their organisation provided training and support to trustees, especially those that were new to the role. Rather disappointingly, a sizeable minority (40%) said they did not do this. More positively, two fifths (40%) said that they offered this 'to some extent' whilst 20% said they gave comprehensive training and support.

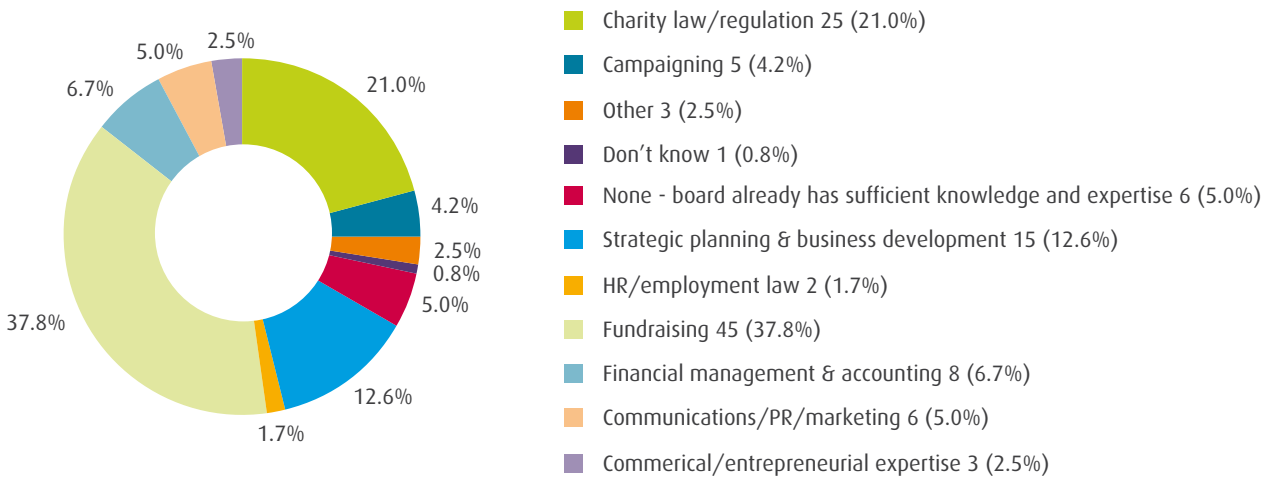
Chart 12: does your organisation offer training and support to trustees, especially those that are new to the role?



Whilst it is to be expected that many small, new organisations do not yet have formal training programmes for trustees, it is important that all charities offer some kind of induction and support. This will help ensure that trustees can make an effective contribution to the running of the charity.

In relation to the issue of trustees' skills development, the top priority area in which respondents felt their board needed to increase its knowledge and expertise was fundraising (38%) followed by charity law/regulation (21%) and strategic planning and business development (13%). This emphasis on fundraising may be a reflection of the current financial climate in which resources are scarce.

Chart 13: top priority area in which respondents indicated their board would like to increase its level of knowledge and expertise



Respondents were also asked to name their second highest priority in terms of enhancing trustees' knowledge and skills. Again, the most commonly cited area was fundraising (19%) jointly with communications, PR and marketing (also 19%). This was followed by charity law/regulation (16%).

Spotlight on ... governance issues at registration

In the period April to September 2011, the Charity Commission received around 500 applications for charity registration every month. As regulator, it is important that we assess the charitable status of applying organisations and ensure that they are operating for the public benefit.

As part of our registration assessment work, we consider a number of things. We need to know that sound governance arrangements are in place and that the trustees know what is expected of them. Whilst there are usually no problems in this area, sometimes difficulties are identified which need to be resolved prior to registration being invited. For example, there might be:

- Governance arrangements which are complicated, hindering effective management of the organisation.
- Too many, or too few, trustees.
- Doubt as to whether the trustees are acting independently, or are free from conflicts of interest or loyalty.

In such cases, and where appropriate, we offer support and guidance to resolve the difficulty. Below are a few illustrative case studies drawn from our casework.

Case Study 1: reducing the size of the board where large numbers of trustees are involved, and simplifying governance arrangements

Who applied?

A religious organisation whose purpose is to provide advisory and facilitation services to its members, generally other institutions of the same faith.

What was the problem?

On applying for registration, it was found that the areas of responsibility normally vested solely in the trustees were split between numerous bodies, including the 'General Council' which represented the members of the charity.

The constitution gave the General Council powers to set strategic direction, consider recommendations from the Executive Board and approve the budget. Generally, it is unacceptable for the members of a charity to hold such powers. Instead, they should sit with the trustees.

In addition, it was noted that the Executive Board comprised a maximum of 58 members and the Commission was unsure how such a large and unwieldy board would work in practice.

How was it addressed?

The constitution was amended in line with the Commission's recommendations. The General Council's powers were amended and handed over to the trustee board where appropriate. It was also made clear by the charity that not all of the people who sat on the Executive Board were trustees with genuine responsibility for governance. This overcame the issue of having a board that was too large to work in practice.

Commenting on the case, the Charity Commission case officer said, "In cases like this we explain the principles of trustees ultimately being responsible for the administration of their charity, and how they can delegate in an appropriate way. We also suggest appropriate amendments to the governing document to reflect this".

Case Study 2: conflict of interest?

Who applied?

An organisation working to promote the arts as a means of tackling violent crime. It organises exhibitions, delivers campaigns and runs youth projects.

What was the problem?

In the application for registration, it was proposed that the founder and chair of the organisation would take up the paid position of chief executive. Whilst this is not necessarily a problem, it can create a conflict of interest between governance and operational responsibilities. Generally speaking, it is the job of the trustees to hold the paid, executive staff to account.

How was it addressed?

The Commission's guidance on trustee expenses and payments states that trustees should only be paid for serving as a trustee where this is clearly in the interests of the charity and provides a significant and clear advantage over all other options. In this case, however, the charity was not paying the chair for her trustee duties but employing her as chief executive. Our case officer sought clarification on a number of issues, including:

- Whether payment to the chair for her services as chief executive was reasonable and in the best interests of the charity.
- The extent to which there had been a transparent selection process for the job.
- Whether there were arrangements in place to deal with any conflict of interest.
- How the post-holder would be appraised and assessed on performance.

The charity explained that the appointment of the chair as chief executive was a temporary measure to drive forward the formal establishment of the charity. After twelve months the position would be advertised externally and a new chief executive appointed following a fair, open and transparent selection process. The charity also stated its intention to manage any potential conflicts of interest by reviewing governance arrangements regularly during this interim period. This solution was welcomed by the Commission.

Case Study 3: independence of the trustee body

Who applied?

An arts and culture trust that was being set up to preserve the legacy of a major festival involving street performances and processions. One aspect of the celebration was to be the unveiling of a large work of public art. The application for registration stated that the trust would sustain the project by raising funds to preserve and maintain the art work into the long term.

What was the problem?

The trustees appeared to be linked to a commercial entity that was closely involved in the design and delivery of the arts project, which the proposed charity was to help fund. The Commission had concerns that the trustees might not have been in a position to make independent decisions regarding the use of charitable funds, and that the commercial entity would have too much control over the charity. This issue was of further concern as there were only three trustees, two of which had links to the commercial body.

Reflecting on this case, the case officer said: "In circumstances such as this it can be difficult for the trustees to demonstrate their independent decision making and to avoid conflicts of interest. We had concerns that the trustee body would not be able to function. We recommended that the charity appoint more trustees who were free from commercial ties, before proceeding with the registration case."

How was it addressed?

Helpfully, the applicant was aware of this situation and agreed that there was a potential for conflicts of interest. To remedy this they appointed a new trustee who was free from vested interest in the work of the charity. In a letter to the Commission, the organisation also promised to recruit a further two independent trustees within three months of registration.

Further information and resources

Our guidance, *The Essential Trustee* (CC3), explains that trustees must accept ultimate responsibility for directing the affairs of a charity, including ensuring that it operates within charity law and delivers outcomes for the benefit of the public. Our Code of Good Governance highlights the key principles, such as ensuring delivery of organisational purpose, exercising effective control and being open and accountable.

View the full range of the Charity Commission's guidance on governance on our website.

Annex: survey methodology

The online survey ran from early August until mid-October. Respondents were invited to complete the questionnaire following the completion of their online register application form. 119 responses were received.

Around 70% of online applicants make it onto the register. The results presented in this publication therefore represent the views and experiences of applicants to the charity register and **not** those of registered charities.

Based on the number of organisations that applied for charitable status in the period 1 April to 30 September 2011 (4095), the confidence interval does not exceed +/- 8.9% at a 95% confidence level. In other words, if you ran the survey multiple times, under the same conditions, 95 times out of 100 you would expect the 'true' value to fall in the range of a maximum of plus or minus 8.9% of the results reported in this survey.