

CFG Report: State of small charity accountancy and support service providers

August 2017

Charity Finance Group works to improve the financial leadership of charities, promote best practice, inspire change and help organisations to make the most out of their money so they can deliver the biggest possible impact for beneficiaries.

Now in its 30th year, CFG has around 1,400 members who manage nearly £21bn in charitable income.

CFG's Small Charities Programme is designed for charities with an income of £1m or less across England and Wales. The programme provides practical finance training and resources to develop financial knowledge and skills and seeks to improve the ability of local small charity accountancy and support service providers to meet their needs.

For more information on this report, please contact Andrew O'Brien by email andrew.o'brien@cfg.org.uk or by phone 02078715476

Executive summary

Although we cannot know exactly where there are gaps in the country, there is clearly a gap between the numbers of charities that are likely to need some kind of charity finance support and the number of support providers. Unfortunately our survey indicates that the number of accountancy and support service providers has fallen since previous research was undertaken.

Small charity finance service providers are generally small organisations themselves – they are also generally providing their services to small numbers of clients. This creates a 'cap' on their capacity to expand and meet demand. This is worrying as the general trend towards expansion (however limited) within the marketplace, shows that there is increasing demand and CFG's delivery of training for small charities on finance has demonstrated a significant need for this support.

Considering the responses to this survey, and our work in the programme, we believe that particular areas where support can be given to providers are:

- **Skills-based volunteering** – and whether this can increase capacity to help providers reach more charities.
- **Building relationships between partners and potential the private sector** – so that best practice can be shared and providers kept on top of latest developments in the sector.
- **Providing more resources to help providers grapple with charity tax issues** – where capacity is limited but there is demand for support from small charities.
- **Digital support** – templates and guides are effective ways of reducing the costs of delivering support for providers to small charities.

- **Building channels to communication with small charities** – particularly through digital channels such as websites and newsletters/bulletins, giving providers much easier access to market.
- **Social investors should consider investing in these capacity building organisations** – recognising the impact that they achieve, but also understanding that it will take time to build successful business models.

National bodies can do more to meet the needs of these support providers, particularly in fostering collaboration and ensuring that strong networks are developed. Charity Finance Group hopes to take the lessons learnt from this report forward in its future work with small charities.

Introduction

Small charity accountancy and support service providers are the backbone of the charity sector, sharing skills, knowledge and experience across voluntary organisations to make them stronger and more effective. Without their work, charities would be more susceptible to isolation and in some cases would be forced to reinvent the wheel as each of them sought to support their beneficiaries.

This is true as much in finance as it is in other areas. Finance can be complex and daunting for charities, particularly small charities. We know from our previous *'Making it Count 2013'*¹ survey that many small charities struggle to get access to the financial skills and experience that they need to do their work effectively. Small charity accountancy and support service providers have a critical role to play in addressing these gaps.

However while the importance of small charity accountancy and support service providers is relatively simple to communicate, there is generally little analysis of the support that small charity accountancy and support service providers need themselves. This is particularly pressing as reports, such as NAVCA's *'Change for Good'*, has found that funding has become harder for local infrastructure bodies to access yet demand for their work is rising.²

CFG has been delivering a wide ranging programme to improve the financial skills of small charities. This has two strands. One is focused on piloting and testing face to face training for small charities and understanding better their needs. The other is supporting small charity accountancy and support service providers, which are closest to small charities, and supporting them to develop charity finance training and products which can support the smallest charities.

This survey was an effort to understand their needs and how best they can be supported in future years to deliver accountancy and support services. For this survey we have used the definition of small charities as those whose annual income is less than £1 million, as outlined in CFG's Small Charities Programme and Small Charity Coalition.

To begin, CFG conducted five 'Big Assist' visits at the beginning of 2016 to different small charity accountancy and support service providers organisations; WYCAS, CPlus, Voluntary Action Oldham, Colchester CVS and VAST.

These organisations are either community accountants or provide accountancy and support services to small charities. The purpose of these visits was to meet with those who work with, design and deliver accountancy and support services to small charities and to discuss

¹ [Making it Count, Charity Finance Group, 2013](#)

² [Change for Good, NAVCA, 2015 p.10](#)

and observe. We used this initial qualitative research to form a survey that could be sent to different small charity accountancy and support service providers organisations across England and Wales.

This survey was launched in March 2016 and ran till October 2016. We have since added to this through our observations in delivering the Small Charities Programme which has seen over 1,000 places of training delivered to small charities.

While we recognize that there will be some organisations that we have missed, we attempted to reach as many respondents as possible by circulating the survey through a range of channels including NAVCA, the national body for local infrastructure. We also used the existing Community Accountants Network (now a part of CFG), attendees of CFGs Community Accountants Conference, identifying and contacting CVSs and other small charity accountancy and support service providers via email and phone.

Upon our initial research with the five organisations, we decided to focus on five key areas:

- What accountancy and support services were available, and where,
- Were services being paid for or free,
- What gaps are there in services,
- Where are the weaknesses and need for training,
- How were small charity accountancy and support service providers working with each other.

These questions and more were put together in an online survey and the questions were reviewed before distribution by small charity accountancy and support service providers organisations (NAVCA, the above mentioned community accountant services and CVS's). The survey received 85 responses, ranging from community accountants, CVS's, charity accountants.

What do we mean by small charity accountancy and support service providers?

Small charity accountancy and support service providers are defined for the purposes of this report as individuals or organisations (whether charities, social enterprises or private businesses) which have as their primary purpose the aim of supporting *other* organisations to better carry out their activities through providing financial advice and support.

Common forms of small charity accountancy and support service providers include: Councils for Voluntary Service (CVSs or CVCs in Wales); community accountants and independent accounting specialists.

Who provides support to small charities?

An important first step to supporting small charity accountancy and support service providers in the charity finance space is understanding who these organisation are, where they work and size they are.

Size of providers

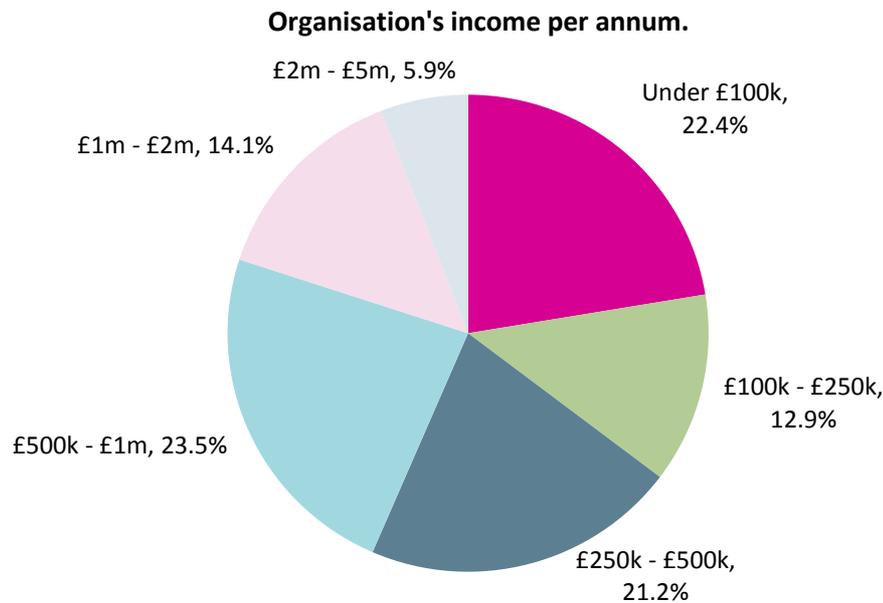


Figure 1

Figure 1 shows us that organisations that provide accountancy and support services to small charities have a similar income to small charities. Over 81% of respondents had an income of less than £1 million, with no organisation having an income of over £5 million.

This indicates that nearly all of the service providers that we are considering this report are small charities themselves. This means that many of the same challenges in terms of capacity, access to the right skills and volatile funding environment apply just as much to them as their clients.

On the one hand this demonstrates one of the strengths of supporting small charity accountancy and support service providers, that they are embedded within small charities and instinctively understand their needs. However, it also highlights the vulnerability of small charity accountancy and support service providers and alongside this survey, CFG's engagement with community accountants has noted a fall in the number of providers of accountancy and support service s.

Geographically the smallest organisations were to be found in South East and South West. Large organisations were found in the North of England. Although this survey cannot be definitive about the causes of this difference, it may indicate that a round of consolidation has taken place in the North of England which has not yet occurred in the South, perhaps due to the more challenging funding situation for organisations in the North of England.

However, as all parts of the country increasingly feel the impact of funding pressures, particularly at local government level which has traditionally funded small charity accountancy and support service providers, this trend could spread.

As larger organisations are more likely to spread themselves over a larger geographically area, this may create opportunities as individual organisations are able to reach more charities. This may make spreading best practice and information to small charities easier than with a more disparate network. However there are risks, as larger geographical range may lead to holes being created in provision and an inability to provide bespoke support.

Insight

- When considering how to support providers we need to recognise that on the whole, they are small charities themselves.
- This means that the structure of support given to them needs to be in a form which is practical for small organisations.
- Support needs to make maximum use of their capacity, recognizing the squeeze facing small charities and be low cost, as these organisations lack financial ‘wriggle room’ for investing in new skills, products and services.
- There is also a challenge of how to regularly engage with a large number of small organisations which are unlikely to have the capacity to regularly attend training/events.
- There are a significant number of ‘medium sized’ providers (20% of our survey size), however, and it is important to consider how their capacity and resources can be best shared with small providers despite potential geographical differences.
- The North of England appears to have larger providers than in the South, this may be due to consolidation in the market place, which is yet to occur in other parts of the country. Potential changes in the size and range of providers may bring new opportunities and challenges that need to be factored into provision of support.

Geographical spread of providers

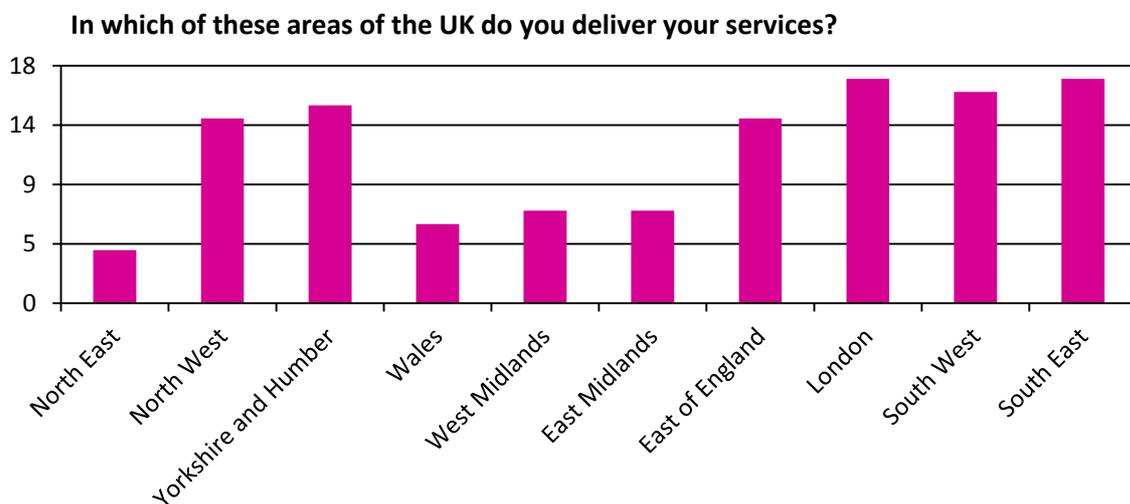


Figure 2

Our survey covered a broad range of geographical areas, which broadly fit into what we know about the location of charities.

Given the lack of publicly accessible information about who providers accountancy and support services to charities, it is hard to make any inferences from the data about whether there may be gaps in provision. In our approach to this survey, we sought to use a range of channels including chartered bodies to try and reach as many providers of support to charities as possible.

Number of charities per provider identified in each region of England and Wales

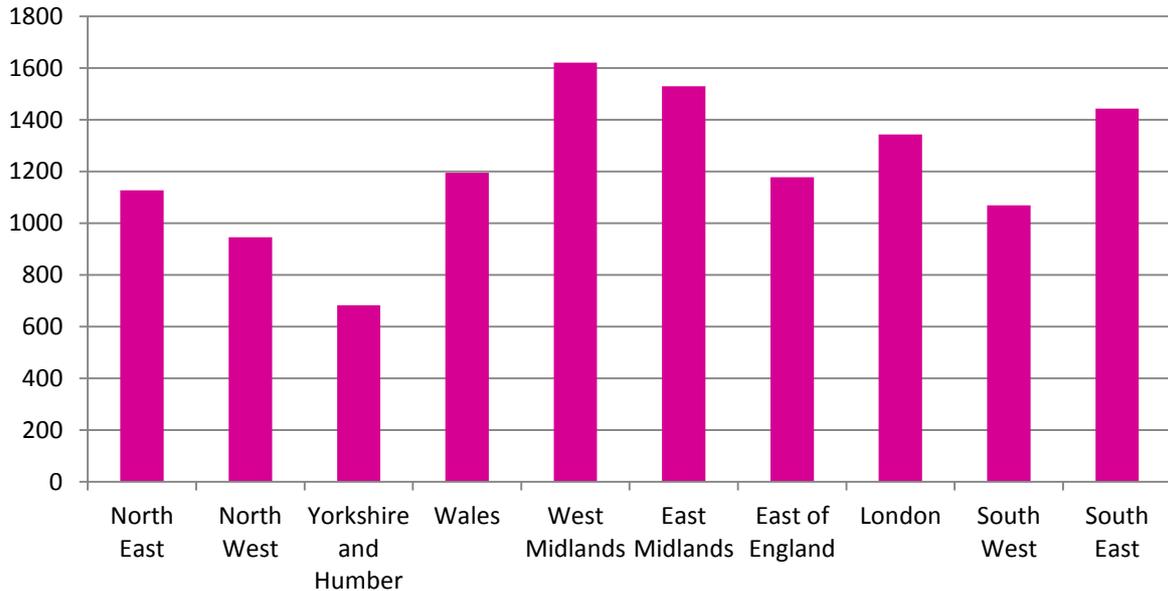


Figure 3

Despite the limitations of this survey, further analysis of the data does provide some interesting insights. Considering our survey population with the information we have on the locations of charities throughout England and Wales does indicate that there may be some ‘cold spots’ for provision in the Midlands, South East and London. This chimes with CFG’s understanding of the marketplace, where our members have noted a decline in community accounting services in the London area. This would indicate a need to focus support in these areas.

There may be other reasons behind this comparison. It could be that we did not manage to reach out to as many providers in these areas as we did in other parts of the country. This is interesting in itself and would indicate that more needs to be done to network providers.

There is no ‘natural number’ of charities that should be served by a provider, and different sized organisations and different types of services can be done over a larger or small population depending on their nature. However, given what we know about the size of providers, the smaller that they are, the less able they are likely to be able to support large numbers of organisations effectively in areas such as providing advice and support on finance which are more labour intensive.

In order to resolve this, there is likely to need to be a two pronged approach to support providers. For those where there is existing provision, ‘scaling up’ is needed so that they can effectively provide for a larger number of charities per provider. Where that is no possible, support needs to be given to help to creation of new providers.

Insight

- Charity finance service providers appear to be reasonably spread across England and Wales.
- In some areas there appear to be stronger provision, such as Yorkshire and Humber, where there may be an opportunity to draw lessons for weaker areas.
- In the Midlands, South East and London there appears to be weaker provision and action needs to be taken to support these areas in particular.

- As most providers are small, there is a question mark about how many clients each organization can support and whether certain services are beyond their ability to deliver.
- There needs to be support given to scale up existing providers or seed the development of new providers where this is not possible.

Types of provider

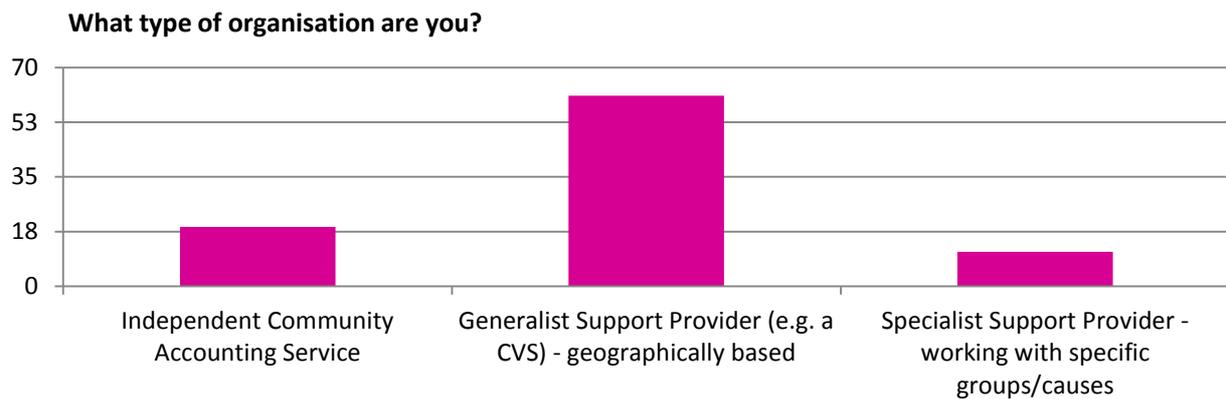


Figure 4

Our survey was mostly completed by CVSs, with a significant number of community accountants (21) and a small number of specialist support providers. A number of respondents stated that they were from the private sector or were sole practitioners, which gives another insight into the capacities of charity finance small charity accountancy and support service providers.

Generalist support providers were most common in London and the South East. Wales and the West and East Midlands had the fewest number of generalist support providers. The North of England was stronger in terms of independent community accounting services.

There appears to have been a fall in the number of community accountants in comparison with the last academic study into this field. In 2006, Sheffield Hallam University³ found that there were around 80 providers of community accountants in operation, with 66% taking part in their survey. Our survey was similarly targeted and CFG has strong links with the Community Accountants National Network. Assuming that we would get a similar level of response, this would indicate that only 30 organisations left. Some of this can be discounted by the fact that we know that all organisations are under a capacity squeeze and that this may have resulted in a lower participant rate. However, it still indicates that there are fewer community accountant services now than in the past. This is a trend that will leave smaller charities without the support that they need.

Insight

- There is a significant amount of diversity in the marketplace, and for some providers, financial support will not be their core purpose. In fact, our survey indicates that 'generalist' providers are more likely than financial specialists such as community accountants – although it should be noted so that generalists will employ specialists

³ Analysis of Community Accounting Services in England and Strategic Implications, Sheffield Hallam University – Finance Hub, 2006

as part of their organization. Support needs to be tailored to meet their needs and not assume a level of specialism or knowledge that may not exist.

- There number of independent community accounting services, which specialize and focus on charity finance issues, appears to have fallen. This means that more outreach and building up the case for charity finance support will be necessary as generalist providers will not have the same focus or integration into finance networks.

Capacity of providers

How many staff and volunteers do you have in your organisation?

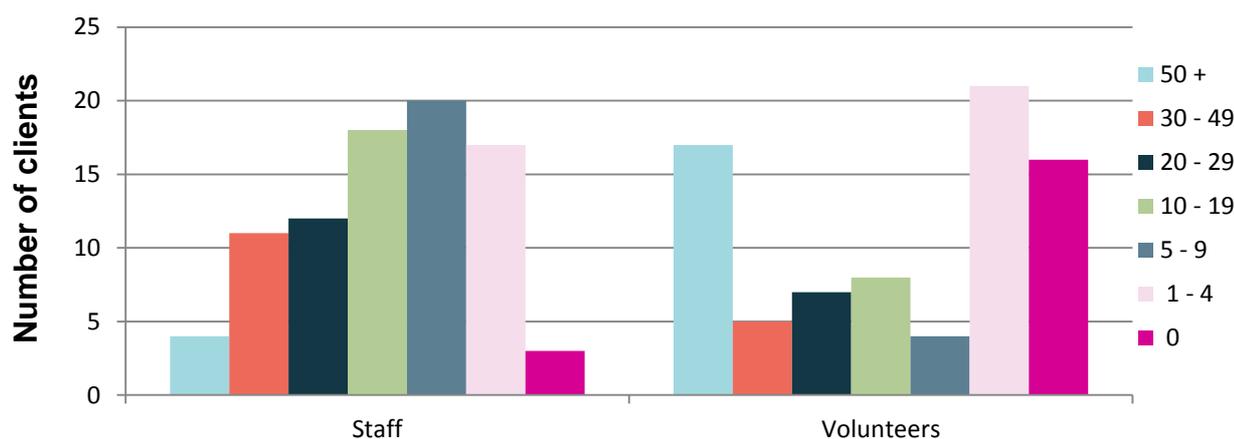


Figure 5

Just 3% of organisations did not have any staff. The most common number of staff for an organisation was 5-9 people (23% of respondents), then 10-19 staff (21%) and 1-4 staff (20%). 4% of organisations had over 50 staff. Of these organisations, two had an income between £2-5 million and one had an income of between £1-2 million. Surprisingly, one organisation with over 50 staff has an income of £100,000-250,000. This could either be an input error or a large number of contracted employees that work on a project by project basis.

As we discussed previously most organisation depend on a small number of staff and a small number of volunteers. The lower average of volunteers compared to staff may indicate an opportunity for providers to tap into a growing trend towards ‘skills based volunteering’ – however it may also indicate that given the complex nature of the subject matter depending on volunteers is not an effective business model.

Insight

- Small numbers of staff and volunteers mean that any support provided to these organisations will need to have a light time footprint as individuals are unlikely to be available to be spared from frontline activities.
- There is a relatively low number of volunteers compared with staff. This may be because volunteers are not an appropriate delivery mechanism for financial support. However it may be an opportunity to enable providers to reach larger numbers of charities and tap into growing trend towards ‘skills-based’ volunteering.

How many organisations do you provide direct accountancy and support services and financial management support and advice for?

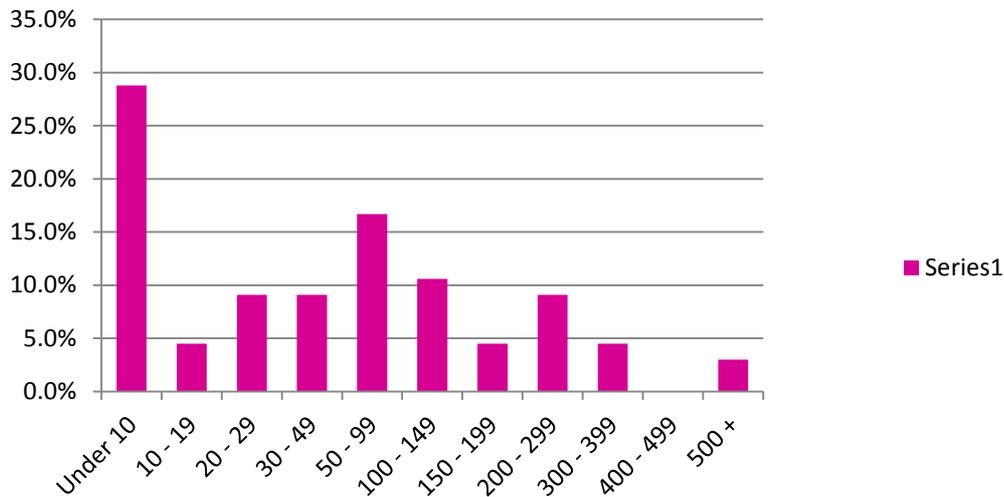


Figure 6

The reach of the organisations that we surveyed highlighted a potential ‘capacity gap’ between the number of charities that providers could serve compared with the number of charities in areas.

Only 2 providers were providing finance services to more than 500 charities – mostly payroll services. The majority of respondents were providing services to fewer than 50 charities. On the one hand this indicates that growth in the number of charities that are supported is possible for a large number of providers. But it is also a challenge for these providers to scale up from such low numbers of charities towards the levels that are likely to be required.

Moreover, supporting small numbers of charities are likely to make the incomes of charities more fragile as they are dependent on a small number of clients. It may also make it harder to get internal buy-in from organisations to invest in development of services as they are reaching such small numbers of organisations. Proving demand for services may also be challenging for advocates of investment.

Previous academic research into this space indicated that community accountants in particular were only reaching around 10% of the charities that needed their help.⁴

Insight

- Most providers are serving very small numbers of charities, creating opportunities for growth but also indicating the scale of the challenge in meeting the needs of small charities.
- The small number of providers that are delivering at scale indicates that it will be challenging sharing best practice throughout the marketplace and that support will need to be provided to disseminate learning throughout providers.

⁴ Ibid., p.36

Over the last couple of years, how has the number of organisations that you provide services for changed?

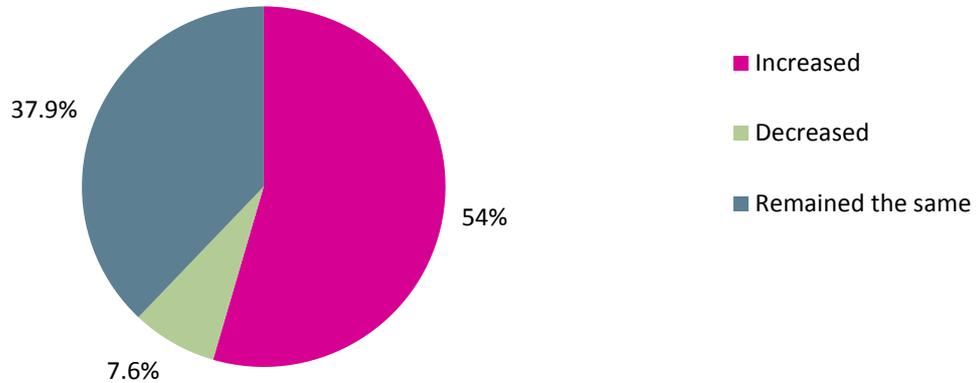


Figure 7

Interestingly, the majority of our respondents said that they had grown and this indicates that there is demand for their support. Reports on the financial circumstances of small charities, such as NCVO's *Navigating Change*⁵, have indicated a large level of volatility which means that they are more likely to be in need of advice and support on finance matters.

The financial situation of small charities does mean that they are also less likely to be able to afford services, and this may be way the number of clients reported above remains low for the providers that took part in the survey. Finding a way to develop financially sustainable services for small charities is challenging, but demand for such services appears to be present.

This is further endorsed by the work of the Small Charities Programme itself, where large numbers of small charities have attended training on a variety of charity finance topics such as reporting; tax; paying people and budgeting.

⁵ [Navigating Change, NCVO, 2016](#)

How do you anticipate the numbers of organisations that you provide direct accountancy and support services for changing over the next couple of years?

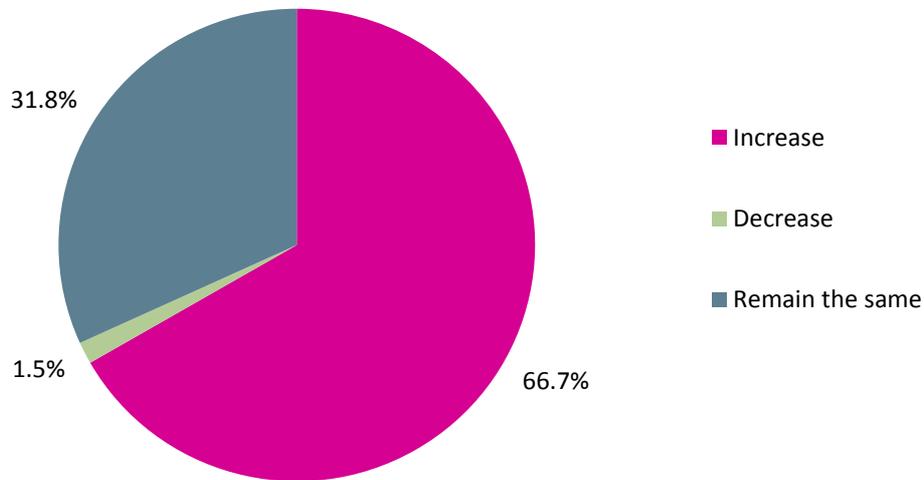


Figure 8

The trend towards increased demand is further indicated by the responses to the survey which indicated that over the next couple of years a clear majority (67%) of respondents stated that they expected the number of organisations that they provided services to would increase. Although there was a significant minority that believed that they would see their services flat-line, the trend towards increasing demand for services is in line with CFG’s experience with providers.

Insight

- Charity finance service providers are experiencing increased demand for their services.
- This trend is expected to continue in the years ahead.
- However the majority of providers are dealing with low numbers of clients and most providers are small organisations. This begs the question as to whether they will have the capacity to be able to reach out to meet the demand in their local areas.
- Providers are likely to need support in reaching out to new charities at scale and deliver services at a sustainable level.
- Support for finance service providers is not going ‘against the grain’ but is reinforcing the needs of charities on the ground.

Types of services provided

Which of the following accountancy and support services and support do you provide and on what basis?

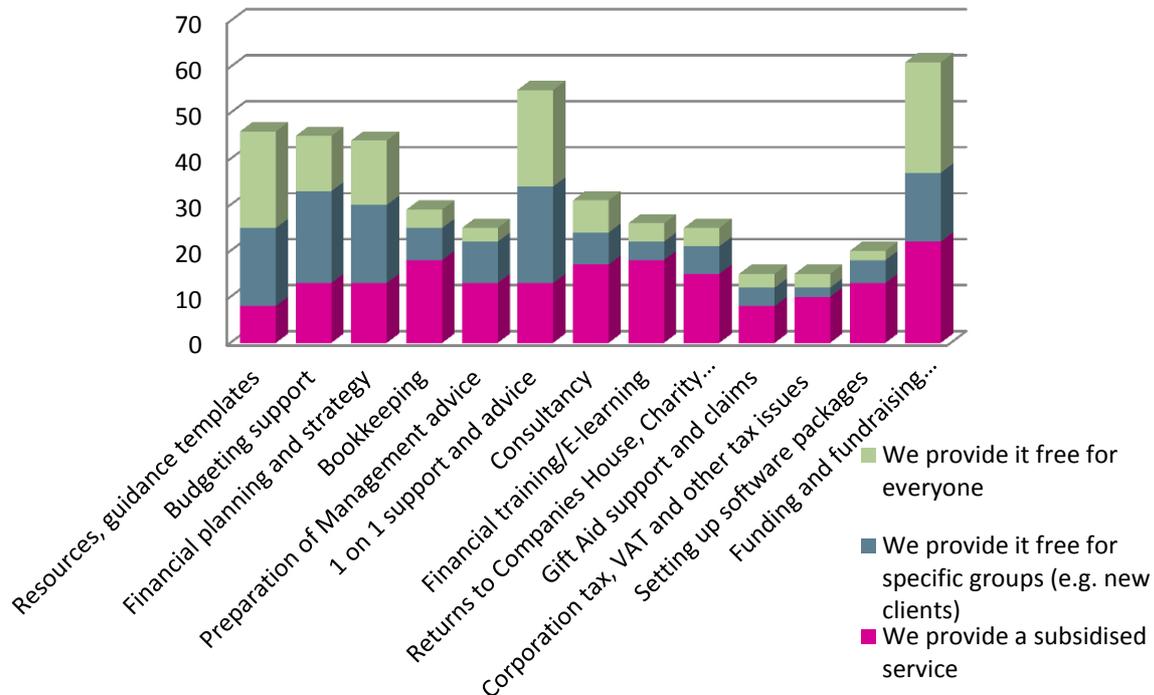


Figure 9

Our survey found a wide variety of services provided by organisations. Some are provided free or subsidised, some are provided at cost. We have divided services between those that are provided free or subsidised and those that are provided at cost (or not at all) in order to get a better indication of the priorities for charity finance support providers and the overall marketplace.

The most popular type of support provided was for fundraising and funding, and this was on the whole provided for free for everyone or specific clients. This is line with our experience of small charities which, as noted above, are operating in financially challenging circumstances and are eager to find more additional sources of funding. The second most popular service was 1 to 1 support and advice. Our engagement with community accountants in particular indicates that a significant portion of this work is funded by local councils and is under threat due to funding pressures.

Resources to help charities carry out their work, budgeting supporting and financial planning/strategy were also popular areas. These are critical areas for small charities and resources, guidance and templates are particularly important as they reduce the costs for charities in having to develop their own systems and approaches.

Tax on the whole was an area where providers were not providing services free or subsidised services.

What services do you not provide or do not provide at a subsidised cost?

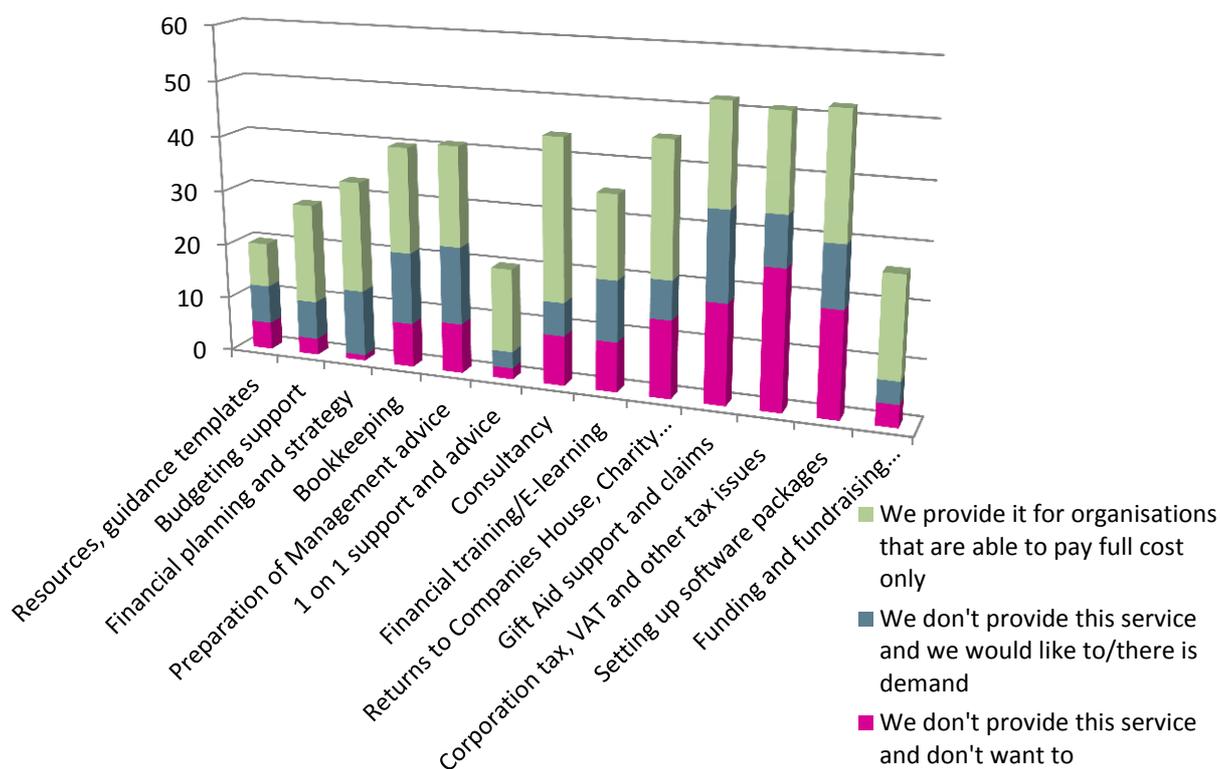


Figure 10

Consultancy was the area where most providers were delivering services at full cost – although the term covers a wide variety of support so it is hard to identify which specific types of support providers are covering. Returns to the Charity Commission and Companies House were also identified as services delivered at cost. This is likely to be due to relatively low cost of preparation and the fact that the processes are relatively fixed for all charities.

Tax and IT support services were areas that providers either reported that they did not wish to provide these services or they did not provide these services but would wish to do so.

That being said, there are a range of services that charity finance providers are not providing but would wish to, and this highlights the limited capacity of providers which we have highlighted above.

Tax, particularly Gift Aid, is a complex area and there may be a lack of willingness to deliver these services because of a lack of capacity. However for many small charities these are some of the most challenging problems that they grapple with. One of the main reasons for starting a charity is to get access to tax benefits in order to support charitable activities. It is important that small charities are able to access the expertise that they need to make the most of the tax reliefs available to charities. CFG's Small Charities Programme has seen a large demand for training on Gift Aid and calls for support on VAT, indicating that there is need.

Insight

- Charity finance service providers are delivering a wider range of services, many of them free or subsidised.

- Fundraising and funding as well as 1 to 1 support are the most common areas of support provided free or subsidised.
- Consultancy is the most common service provided at cost and is clearly an important financial contribution to the marketplace.
- The focus on 1 to 1 services raises questions about the ability of providers to meet the scale of need in the small charity sector.
- Tax remains a gap and this is likely due to the complexity of the subject matter.
- Support should be focused on this area in particular, as well as other gaps in provision.

Role of national representative bodies

Another part of this survey considered the role of national representative bodies.

Nine of our respondents said that they use resources from CFG, NAVCA, Small Charities Coalition and other national small charity accountancy and support service providers bodies, while thirteen respondents said that they used Charity Commission guidance. Some also noted that they use national auditing firm's guides (such as Sayer Vincent) and that others use HMRC for relevant topics.

However, despite these promising signs many of our respondents said that they could be helped with more templates and resources, especially online resources. Many noted that if they had free access to these templates and resources then it would help them to improve their ability to deliver accountancy and support services.

Some respondents also noted that they would like to increase staff experience with certain topic areas (e.g. audit and tax) to help their organisations to deliver these services. Organisations themselves felt that they could be supported to learn and develop services to broaden the range they currently provide. This would help small charities who would not have to use numerous different financial support providers and could consolidate support into one provider, which could provide cost savings for small charities. National bodies clearly have a role to play in supporting this work.

Many respondents said that they would like support connecting with other service providers within their areas to build a network of support for all charity financial matters. The idea of developing partnerships (both with charities and businesses) within their areas was a strong theme and one that many respondents would be find helpful so they can appropriately refer their members. This willingness by respondents to share and support other service providers to ensure that small charities get the financial help they need is encouraging and should be supported by national small charity accountancy and support service providers bodies and the Charity Commission.

Insight

- Charity finance service providers are using national Small charity accountancy and support service providers whether membership bodies or regulators. However national bodies can do more, particularly if providers are going to scale up.
- There is a need for more templates and guidance to make the costs of delivery lower for smaller providers.
- Digital support has the ability to reach large numbers of organisations and consideration should be given to how digital resources can complement other methods of support.
- Digital support also has the ability to ensure that providers can regularly top up their learning and skills so that they are able to adapt to changes.

Which approaches are the most effective for you to reach new clients?

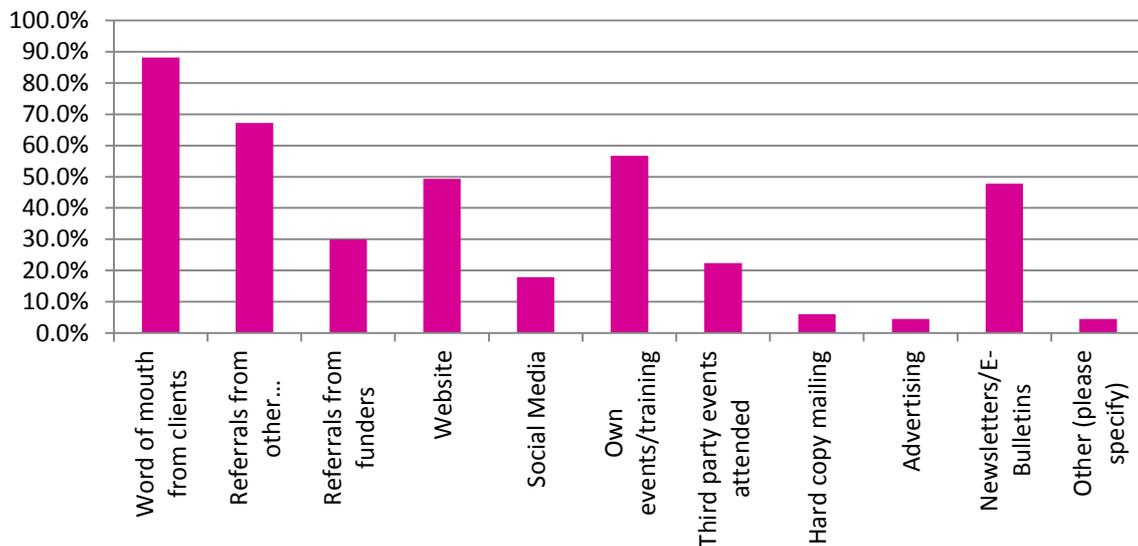


Figure 11

Promoting and establishing relationships is critical to the development of accountancy and support service providers, as can be seen with Figure 8, where the most effective ways of reaching new clients is word of mouth from clients and the second is referrals from other small charity accountancy and support service providers bodies and partners. This could be seen a barrier to expanding the services of charity finance providers as it requires a 'critical mass' to be reached before services can be expanded at scale.

The survey does, however, alight on other methods such as website, delivering training directly and newsletters and bulletins. These may be areas that national bodies can support, particularly with a website and newsletters. This could give providers a chance to grow and reach new clients. The survey asked respondents what kind of training would help to grow and develop sustainable accountancy and support services. The most common response, using text data analysis, was training for charity financial accounts. Research has shown through CFG's SORP Research Exercise consultation⁶ that small charities are finding the new reporting requirements introduced in the SORP FRS 102 challenging. These requirements are often considered too long and complicated for the experience of a small charity. Therefore, our respondents desire to seek training for charity accounting is important to help the sector address the deficit between small charities and their reporting requirements.

Insight

- Word of mouth remains the most effective way to grow services but creates challenges in terms of reaching a critical mass of organisations.
- However digital channels such as websites and newsletters could provide a way to reach more small charities and ensure that service providers can expand and meet demand.
- Focus should be given to how new channels can be created which can be shared across service providers so that a larger marketplace can be developed.

⁶ Charities SORP Research Exercise Consultation Response, Charity Finance Group, 2016