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cathedral accounts - how do you compare?

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Annual Charity Finance survey

cathedral introduction

haysmacintyre is delighted to publish this survey. We trust readers will find it of interest.

This survey includes financial information taken from the statutory accounts of the majority of English Anglican Cathedrals and makes comparisons between their income and expenditure profiles, and between certain key ratios. It also comments on notable qualitative aspects of the accounts.

Each English Anglican Cathedral has been sent a copy of the survey and, for those cathedrals which provided us with their accounts directly, we also analysed their individual data. The following report shows only the overall data.

We would be very pleased to hear from anyone with interest in the survey.

Yours faithfully



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background and scope of the survey



background

The statutory accounts of English Anglican Cathedrals, in contrast with those of registered charities, are not readily available over the internet and hence the surveys and benchmarking exercises which cover the registered sector do not extend to cathedrals. Whilst any person can apply to a cathedral for a copy of their accounts and, indeed, must be given it under the 1999 Cathedrals Measure, we are not aware of any sector wide exercise having been undertaken in the recent past.

It was this fact, along with the presence of comparable formats and activities, that motivated us to contact each cathedral to request a copy of their accounts with a view to making some comparisons but without, in truth, a clear expectation of what we would find other than a good deal of diversity. This expectation has been borne out but nevertheless some interesting general trends emerge.

We discuss the detailed data on an anonymous basis. Even though the information is legally in the public domain some early conversations with particular cathedrals suggested that this approach was more comfortable for all concerned. We have, however, prepared an individual summary for the attention of each cathedral that supplied us with their accounts.

scope

The survey covers the accounts of over 80% of English Anglican Cathedrals. The majority of these were sent directly to us although, in a small number of cases, individual cathedrals had already chosen to put the information into the wider public domain via their own website.

After a little deliberation, we specifically excluded the accounts of Christ Church, Oxford on the basis of non-comparability as these accounts were prepared under the HEFCE guidance and also encompassed the higher education activities of the college.

The survey also excludes a small number of cathedrals where neither direct application nor external research succeeded in securing a copy of the accounts. We also included the published accounts of Westminster Abbey as, whilst they follow a different format, we felt it was sufficiently similar for comparisons to be possible.

The accounts included are the most recent that the individual cathedrals were able to make available or the most recent we could locate. The dates of the accounts are not consistent as cathedrals adopt a variety of year ends. Given the differing accounting periods, certain comparisons quickly proved themselves to be unhelpful or misleading; in particular total returns on investments where the significant unrealised balance sheet movements during the recent stockmarket volatility render comparisons between non-conterminous accounts fairly meaningless. We have, therefore, excluded such items from our report.

qualitative aspects of the accounts



Of the accounts included in the survey 86% had received an unmodified opinion from the cathedral's auditors. Of those which did not, one auditor's report contained an emphasis of matter paragraph connected with the cathedral's ability to continue as a going concern, which is perhaps a surprising issue to find, and three reports were qualified by the auditors. These qualifications all related to very specific matters and, in one or perhaps two cases, the qualification may have been avoided if more work had been done but this would have had a financial cost. As a proportion, there are more modified reports than we have experienced in connection with other charities.

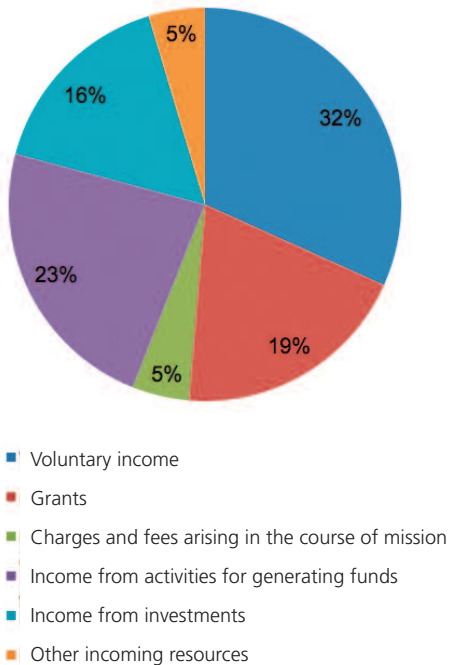
81% of the accounts complied closely with the formats provided by the CAFA guidance specified by the Church Commissioners. Few sets looked exactly like those provided in the guidance but this was largely due to the omission of non-applicable income and expenditure categories.

A minority of cathedrals chose to add additional income and expenditure headings of their own generally to highlight areas which are either unique or unusually important to them.

We noted a degree of inconsistency surrounding the definition of support and governance costs.

the income profile

mean income
all cathedrals



One of the most striking statistics relates to the reliance of cathedrals on voluntary income with a mean figure of 32% of total income coming out of our survey and a median figure of 28%.

The cathedral with the highest voluntary income percentage of 73% probably represents a structural anomaly of that particular cathedral and a local funder. Leaving this aside, the cathedrals with the second to fifth highest percentages, in the range of 64% to 54%, all had significant appeals in these particular years. It appears unlikely that these levels will be sustained in future years.

Nevertheless the significant mean and median amounts imply a dependence on voluntary income for operational purposes. Only one of the cathedrals in the survey would make a surplus without the contribution of voluntary income and it is surely no coincidence that this particular cathedral has very significant income from visitors paying an entrance fee, but the lowest percentage voluntary income at 5%.

Two of the four cathedrals with the lowest percentages of voluntary income also had higher than average income from refectory/shop sales at 42% and entrance fee/shop/refectory income at 45%. Whilst it is important also to be aware of one-off anomalies in the figures – in one case total income is skewed upwards by a large grant – there is a suggestion of an inverse relationship between income on the door and other income from visitors.

Grant income whilst having rather lower mean and median figures of 19% and 14% of total income respectively was also the income stream displaying the widest range. The cathedral with the highest proportion of grant income is one of the smaller and newer cathedrals with fairly low levels of voluntary and investment income. Similarly the second and third placed cathedrals in terms of grants receivable have relatively low levels of voluntary income. Readers will, of course, be aware that success in increasing voluntary income can easily lead to a reduction in certain grants.

It is also true that grants receivable are easily skewed by timing and this is true of both external grant givers and related bodies although there may be somewhat more scope to influence the latter.

Charges and fees arising from the course of mission display low mean and median values with the upper marker of 34% being well in excess of average values and one fifth higher than of the second placed cathedral. Both of these relate to cathedrals where the choir school is consolidated within the cathedral accounts and are, therefore, atypical.

Activities for generating funds are, on average, very significant. The top and bottom markers are undoubtedly indications of the respective cathedrals' relative status as visitor attractions. Of the five highest proportions ranging from 42% to 54% three relate to cathedrals with an admission charge although the highest does not. Of the eight cathedrals where income from generating funds does not exceed 10% of income, the majority related to smaller and lesser known cathedrals.

Investment income varies between 4% and 35% of total income within our data. Clearly, this income stream has a huge dependence on the value of investments. Relative investment returns on the available assets are of more interest and we discuss those separately below.

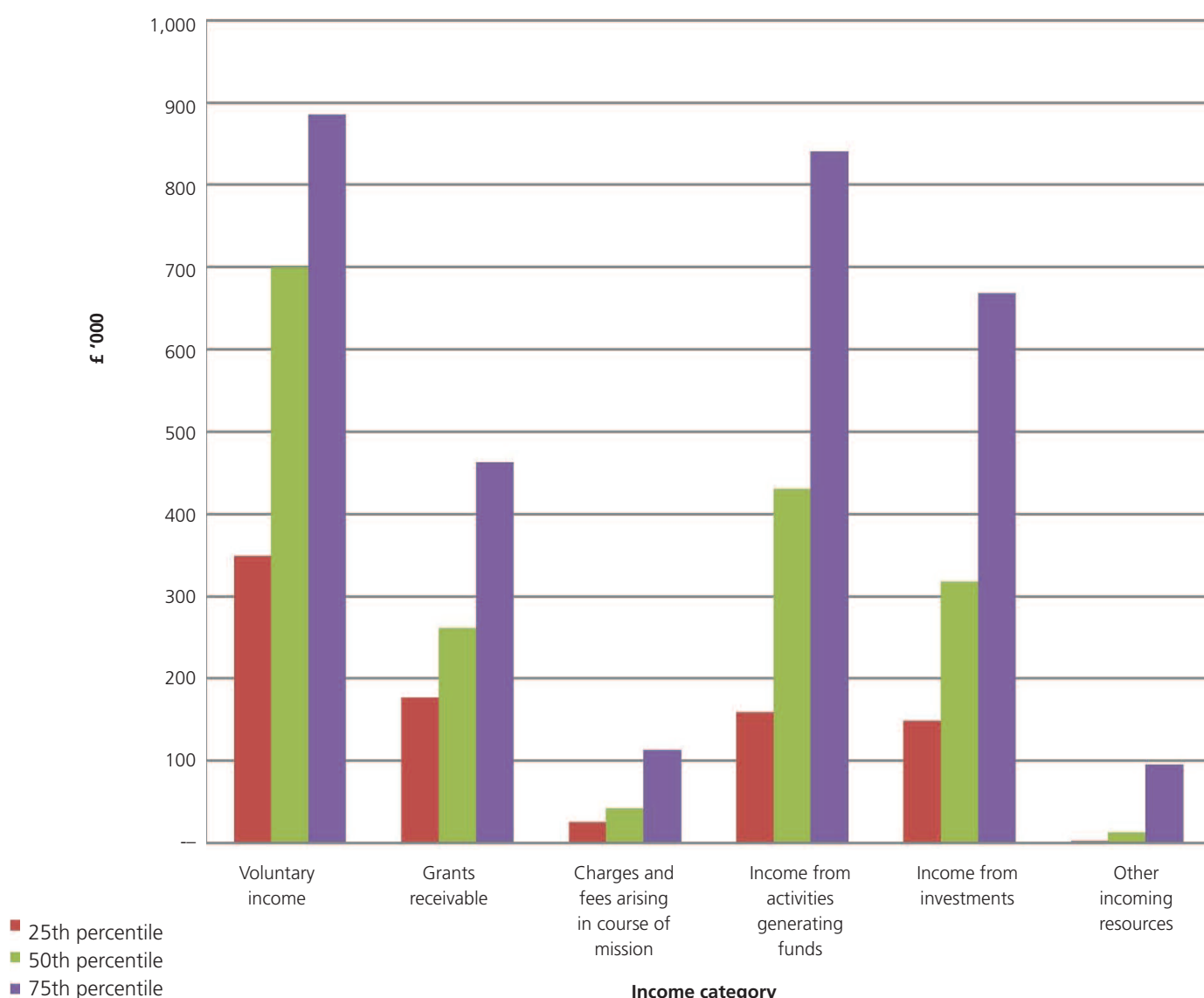
Within our survey, other income includes not only items classified under "other incoming resources" in the accounts but also any non standard headings. The highest and second highest figures of 65% and 41% of total income relate respectively to a cathedral which shows income from charges to visitors separately and a cathedral which has an income stream which is unique to it. The third highest figure of 18% includes some items which could be re-classified elsewhere. For other cathedrals, other income represented 10% or less of total incoming resources.

cathedrals' income

income ratios - compared with total income

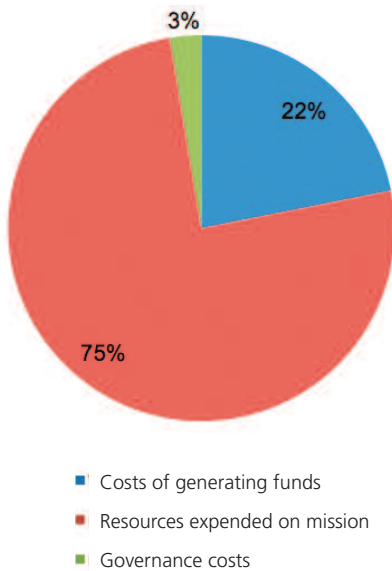
	Mean	Median	Highest	Lowest
Voluntary income	32%	28%	73%	5%
Grants receivable	19%	14%	73%	1%
Charges and fees arising in the course of mission	5%	3%	34%	0%
Income from activities for generating funds	23%	20%	54%	1%
Income from investments	16%	14%	35%	4%
Other incoming resources	5%	1%	65%	0%

income absolute values



the expenditure profile

mean expenditure all cathedrals



It is expected by readers of charity accounts that the largest single expenditure stream will be charitable expenditure, i.e. expenditure on mission. The majority, but not all, of the accounts we have reviewed conform to this expectation with two exceptions where total expenditure on mission is less than 50%. Overall the range of figures from 48% to 97% of total expenditure spent is wider than one is accustomed to seeing in general charity accounts.

Of the five cathedrals with the highest percentage expenditure on mission ranging from 88% to 97%, none hold any significant investment property nor incur investment property costs. Of the five with the lowest percentages ranging from 48% to 66%, all hold investment property as the largest item on their balance sheets and the two with the lowest percentages of expenditure on mission also had high costs associated with trading.

We are forced therefore to conclude that in this respect the accounts of cathedrals as a whole are not comparable but, within the smaller and more comparable sub-groups above, the range is still relatively large.

The vast majority of cathedrals allocate support costs (i.e. those administrative functions which support direct expenditure on mission) to each of the expenditure categories in the Statement of Financial Activities. A small number showed administrative services as one line under expenditure on mission, perhaps on the basis that apportionment was not considered to be particularly meaningful. This area could warrant further consideration.

Governance costs varied significantly in a number of cases. The CAFA guidance defines governance very narrowly, in common with the definition applied by registered charities which typically disclose governance costs in the range of 0.5% to 2%. Of the five highest governance percentages, all allocate a generous proportion of support costs to this category rather than expenditure on mission. In contrast, a small number of cathedrals do not include the category at all hence the inclusion of nil as the lowest figure in the survey.

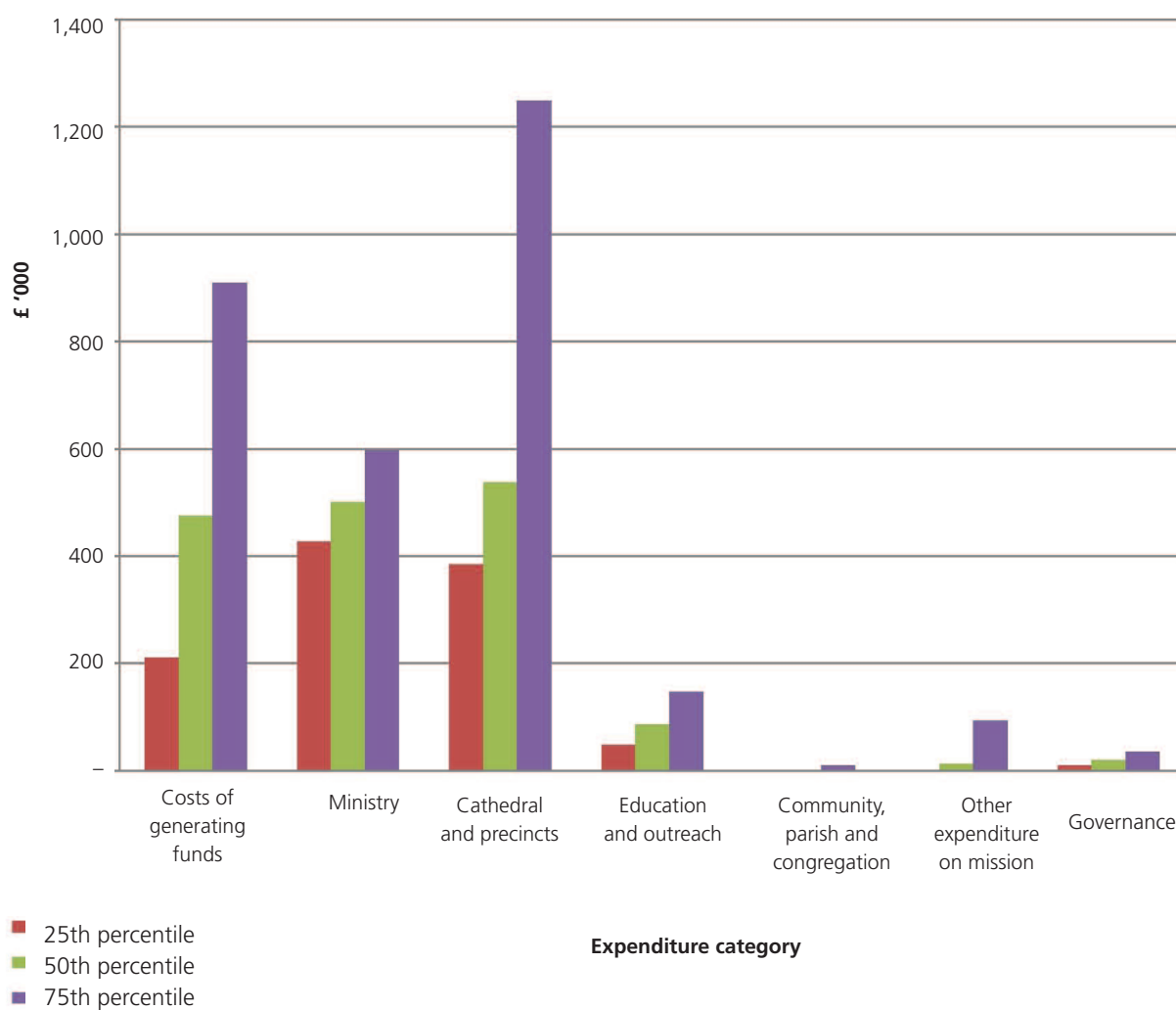


cathedrals' expenditure

expenditure ratios - compared with total expenditure

	Mean	Median	Highest	Lowest
Costs of generating funds	22%	21%	50%	3%
Mission expenditure	75%	78%	97%	48%
Governance costs	3%	1%	7%	0%

expenditure absolute values



return on assets



As we noted in the introduction, we did not find the total return ratios to be particularly meaningful due to the varied balance sheet dates. We did, however, feel that the income returns on assets warranted some comment. These have been calculated following the cathedrals' own classifications in the accounts i.e. by dividing the disclosed investment income by the disclosed investment assets.

Cash is included where it is disclosed as being held for investment purposes or as long term deposits. Hence, sadly, the cathedral showing a 373% return does so merely due to investment income generated primarily from cash balances having been excluded from the calculation.

An adjusted calculation gives a somewhat more plausible 7%. The second and third highest returns of 13% and 11% also arise from classification issues rather than true variances. Aside from these extremes, the range of returns is 1% to 7%. Those cathedrals varying significantly from the median figure of 5% may wish to give this area further scrutiny.

Returns on property assets also need to be considered with caution given the effect on the figures of the valuation methodologies adopted and also transfers between investment and non-investment property.

For the majority of the accounts we obtained, it is possible to identify the property income and investment property value separately and thus derive an apparent return. The outlying highest return of 89% appears to be an anomaly of an unusual method of asset valuation, whereas the second highest return of 30% arises from an investment property value which had not been modified for 10 years. The third and fourth highest returns of 18% and 14% may include a significant element of rentals on non-investment property as it is not possible to discern the split from the accounts. At the lower end of the returns two cathedrals have returns below 2% without there being readily identifiable reasons as to why. Otherwise there are 12 cathedrals in the 3% to 6% range and seven in the 6% to 8% range.

cathedrals' return on assets

return on assets

	Mean	Median	Highest	Lowest
Income return on non-property investments	16%	5%	373%	1%
Income return on property	10%	6%	89%	2%

conclusions

We were struck by the high dependence on voluntary income and the apparently inverse relationship between this and income from visitors. This emphasises the difficulty of deciding on whether to charge for admission.

Furthermore, the importance of both trading and investment income and the current economic challenges are likely to mean that the coming years are going to be challenging for many cathedrals.

Regarding the accounts themselves, we consider that the existence of a standardised format for cathedral accounts is extremely useful in facilitating some comparability where otherwise there would be likely to be none.

Furthermore, the existence of a standard framework is clearly helpful for preparers and has been taken up. The survey also reveals a few areas where the next guidance could be more emphatic in its requirements, for example regarding governance costs.

Finally we would like to commend preparers on the high quality of the majority of accounts which we have seen and the commitment this evidences to transparent financial reporting; this despite the limited circulation of the accounts.

about haysmacintyre

haysmacintyre, Chartered Accountants and business advisers, works with over 550 charities and not for profit organisations in the UK and overseas. Our services include the full range of audit, tax, VAT and comprehensive advisory services. Our multi-disciplinary specialist team has extensive sector experience working for a diverse range of charities. We are based in one location which ensures an integrated and comprehensive approach to our clients' requirements.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.

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