



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED14-02
28-29 September 2023 – Hybrid Meeting

Section 24 Part III – Fundraising Costs

Summary	This paper provides TAG members with an initial draft of the authoritative guidance for Section 24 Part III <i>Fundraising costs</i>
Purpose/Objective of the paper	The paper provides TAG members with an overview of developments since the analysis of the consultation responses previously brought to the TAG. The paper identifies key issues highlighted through a recently held Focus Group, which has informed the development of the Fundraising costs section.
Other supporting items	TAGED14-03 <i>Classification of expenses</i>
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Actions for this meeting	<u>Comments and advise on</u> <ul style="list-style-type: none">i. the principles for defining fundraising costsii. the proposal to include commercial activities that raise funds for an NPO within fundraising costsiii. the proposal to exclude investing activities from fundraising costsiv. the proposed disclosuresv. the draft guidance

Technical Advisory Group

Section 24 Part III *Fundraising costs* - Draft authoritative guidance

1. Introduction

- 1.1 This paper provides:
- an overview of developments since this topic was last brought to the TAG and including a summary of the outputs from a recent focus group;
 - proposals for the definition of fundraising costs; and
 - proposed disclosures.

2. Background

- 2.1 Fundraising activities and therefore costs are also not always easy to define. Activities with the primary objective of raising funds may serve additional purposes and many other activities are important to income generation. The direct costs allocated to fundraising can be subjective, and the true cost of fundraising activities may include an element of indirect costs. It was previously noted that the costs and complexities of allocating these indirect costs may outweigh the benefits.
- 2.2 This topic was brought to the TAG at its May 2023 meeting, alongside a paper on the classification of expenses. These papers analysed the responses to the Consultation Paper and proposed a way forward. As set out in TAGED12-06, the proposed approach to the classification of expenses explores what natural or functional expense information would be required and whether fundraising costs can be a specified activity that needs to be presented for all NPOs. This is considered in TAG14-03.
- 2.3 Irrespective of the approach taken, guidance is required that sets out the principles for identifying and allocating costs to fundraising, including where such costs are shared between fundraising and other activities of the NPO. Guidance is also required on how such costs are presented between funds with restrictions and funds without restrictions, which will be considered further in developing the material for the new section 36 on Fund Accounting. In developing guidance, consideration will be given to the costs associated with developing grant agreements and the costs of broader fundraising to attract these types of funds.
- 2.4 The Secretariat has developed a draft authoritative guidance, based on the proposals in the Consultation Paper, feedback received from respondents, the broader approach to the classification of expenses and the need for specific guidance on this topic.

3. Scope of fundraising activities

- 3.1 In taking forward this topic consideration was given to the scope of fundraising costs and what they should include. Proposals were developed that considered event and grant based fundraising costs, commercial activities and investing activities.
- 3.2 The scope of the core costs of fundraising is intended to include such costs as grant application expenses for both successful and unsuccessful bids, marketing and other direct activities to seek donations, and the staging of fundraising events. It is not intended to include corporate planning type activities such as organisational strategies, business plans and annual reports.
- 3.3 A second area of fundraising activity can come from trading or commercial activity that has the purpose of raising funds for use by and NPO in meetings its objectives. While the commercial or trading activity, may not in itself be a missional activity, it could be considered a type of fundraising cost. The costs here could be the cost of the NPOs operations including costs to sell.
- 3.4 Taking this further, this raises a question about where charges are made for services or goods that are part of the activities being providing to service recipients as part of an NPO's mission and objective to provide a benefit to the public. This could be considered as a commercial activity. The Secretariat's view is that these charges are not set as part of fundraising costs and are part of an NPO's operating model to deliver its mission. It is not therefore proposed to include such costs as fundraising costs.
- 3.5 A third area considered were investment management fees, being the costs of administration and portfolio management. This could be relevant where an NPO has large funds such as endowments that need to be effectively managed to generate income for an NPO to apply to its purposes.
- 3.6 It is recognised that some activities in relation to fundraising are multipurpose, covering both fundraising and NPO awareness. There are options for such costs to include all costs in scope, require allocation of costs between fundraising and awareness or to descope all. For example, a corporate strategy document could be used for marketing purposes, but as set out in 3.2 the intention would be to descope this from inclusion as a type of fundraising cost.
- 3.7 Whether or not activities are multipurpose, analysis of fundraising costs will involve allocating and aggregating some or all expenses to the activity to which the consumed resource relates. Methods of allocating and aggregating expenses should be reasonable and consistently applied. The approach to the allocation and aggregation of expenses is set out in TAGED14-03 *Classification of Expenses*.
- 3.8 A focus group was held earlier this month to seek feedback on the scope of fundraising costs and specifically the inclusion of commercial trading and investment

management expenses. The focus group also looked at proposed disclosure requirements, including the use of metrics. This will be discussed below.

- 3.9 A majority of Focus Group participants as demonstrated by the poll results in Annex A were in favour of including commercial trading (69%) within fundraising costs. There was also support for the inclusion of investment management expenses (77%) within fundraising costs definition. It should be noted that these responses may reflect the demographic of the focus group participants, where participation from Latin America, Africa and Asia was not as large. The inclusion of business development and proposal writing expenses was also strongly supported (69%). This concurs with point 3.2 where grant expenses are considered a core fundraising costs.
- 3.10 The draft guidance incorporates feedback from this group about the scope of fundraising costs. However, despite the support for the inclusion of investment management expenses within the scope of fundraising costs, the Secretariat has not included these in the current draft. On reflection the Secretariat feel that they are different in nature to other fundraising costs and relate more to the good financial management of existing resources rather than seeking to generate additional resources. Given the strong support for including information on investment management expense, a disclosure requirement as part of Section 24 Part II on the classification of expenses could be considered.

Question 1: Do TAG members agree with the exclusion of investment management expenses as proposed by the Secretariat?

Question 2: Do TAG agree that commercial and/or trading activities for the purposes of raising funds should be included as a fundraising activity, but charges made for services or goods providing a benefit to the public is not a fundraising activity?

Question 3: Do TAG members have any other comments on the scope of fundraising costs?

4. Disclosures

- 4.1 The core elements of disclosure considered include a narrative description of the method of cost allocation used and a split between the core segments of fundraising costs. These segments would follow the key types of fundraising activity identified in paragraphs 3.2-3.5 above.
- 4.2 The focus group supported the disaggregation of fundraising costs (82%). This was particularly to identify fundraising from trading activities, but based on discussion it was felt to apply equally to other significant segments of fundraising activity and this is reflected in the draft guidance.
- 4.3 Focus group participants were also asked about the use of metrics, reflecting previous feedback costs that fundraising costs is an area where metrics can be applied. There is a widespread concern among practitioners regarding potential over

use of fundraising cost information and its use in metrics, where these are applied without a broader interpretation.

- 4.4 In light of a discussion around fundraising metrics, the focus group considered the question as to whether it is justified to separately disclose fundraising costs. The focus group expressed strong support (84%) for the separation of fundraising costs from the overall cost base, with a minority of dissenting views.
- 4.5 Reflecting this discussion and prior input, it is not proposed that INPAG mandates any metrics, leaving these to user interpretation of data, but equally we are aware of the concerns around disclosed data being applied in this way. The focus is on a common principles to identify and calculate fundraising costs.
- 4.6 The disclosure requirements proposed therefore focus on a narrative description of the scope of fundraising costs, the method of cost allocation used in calculating fundraising costs and a split between the core segments of fundraising costs.

Question 4: Do TAG members agree with the proposals for disclosures relating to fundraising costs ?

5. Approach to Drafting the Exposure Draft for Fundraising Costs

- 5.1 The Secretariat has developed draft Fundraising Costs guidance for Exposure Draft 3, based on feedback received from respondents, and the broader approach to the classification of expenses.
- 5.2 Guidance on the principles for allocating costs, which will also apply to fundraising costs, sits in Section 24 Part II *Classification of expenses*. This includes where such costs are shared between fundraising and other NPO activities. This is because it relates to building up the overall cost NPO base, and not specifically to fundraising.
- 5.3 Application guidance is not proposed for this section, but implementation guidance with illustrative examples will be developed following feedback from the TAG on the overall principles.

Question 5: Do TAG members agree that cost allocation guidance contained in Section 24 Part II is sufficient, or is additional guidance required?

September 2023



Annex A: Focus group poll responses

Question 1 - Do you think INPAG should require fundraising costs to be disclosed, along with accounting policy?

Answer	% of Votes
Yes	84%
No	8%
Not sure	8%

Question 2 – Should the following expenses be included in Fundraising Costs:

Investment Management Expenses

Yes	77%
No	8%
Not sure	15%

Commercial trading expenses

Yes	69%
No	15%
Not sure / it depends	15%

Business development / proposal writing expenses

Yes	69%
No	23%
Not sure	8%

Question 3 - It is useful / meaningful to compare Fundraising costs to programme costs or income?

Yes	46%
Sometimes / it depends	54%
No	0%

Question 4 – Do you think fundraising costs should be disaggregated?

Yes	82%
No	9%
Other	9%

Annex A

Section 24 Part III *Fundraising Costs*

Scope of this Section

G24.60 This section provides guidance on fundraising costs. Fundraising costs are expenses incurred by an NPO when raising funds to meet its organisational objectives.

G24.61 Whichever classification of expense analysis permitted in Part II of Section 24 is adopted by an NPO, fundraising costs shall be separately disclosed either in the Statement of Income and Expenses and/or in the notes to the accounts in accordance with G24.49.

Fundraising costs

Scope of fundraising activities

G24.62 Fundraising costs include all expenses incurred by an NPO to raise funds that are applied to providing services and goods for the benefit of the public, carrying out programme and similar activities in pursuit of the NPO's stated mission or objectives, or to support activities. This includes the costs of all fundraising activities, events and the sale of donated goods. It may also include commercial/trading activities, but not costs relating to investment management.

G24.63 Fundraising costs include those costs incurred in:

- seeking donations, grants and legacies;
- operating membership schemes or social lotteries;
- staging events, including performance fees, licence fees and other related costs;
- contracting with agents to raise funds on behalf of the NPO;
- advertising, marketing and direct mail materials, but *not* costs associated with educational material designed to further an NPO's mission.

Fundraising costs will not include the development of corporate documents such as strategy documents, business plans or annual reports.

G24.64 Fundraising costs also include those activities where profits are generated to raise funds for the purposes of meeting the NPO's stated mission or objectives. This will include:

- operating a trading outlet to sell donated and/or bought-in goods; and
- operating a trading company undertaking commercial or trading activities.

G24.65 Where a charge is made to partially cover the costs of services or goods provided for the benefit of the public and those charges are part of the operating model established to meet an NPO's mission or objectives those activities are not fundraising activities.

- G24.66 Where an NPO has expenses that have been incurred for a dual purpose of raising funds and raising awareness of the activities of the NPO, pragmatically these shall be considered a fundraising activity unless the fundraising element is incidental to the main purpose of the activity. Where fundraising is incidental to the main purpose, the activity shall not be included as fundraising costs.
- G24.67 Where expenses on dual purpose activities in G24.66 are material they may be split between a fundraising portion and a non-fundraising portion using the cost allocation methods in G24.47.

Calculating total fundraising costs

- G24.68 In many cases, fundraising costs will need to be calculated by attributing direct, shared and support costs to fundraising activities to determine the full cost of the activity. In attributing costs to fundraising, NPO shall apply the general principles in G24.48
- G24.69 In accordance with G24.47, NPOs shall select methods of cost allocation that ensure that the accounts present the costs of fundraising activities and total fundraising costs fairly. Different methods may be appropriate depending on the type of fundraising activity.
- G24.70 NPOs shall ensure that the methods of allocating and aggregating costs attributed to fundraising activities are reasonable and consistently applied and consistent between reporting periods unless circumstances change.
- G24.71 Where an NPO has the commercial activities outlined in G24.63, fundraising costs should include all costs to sell donated or commercial products including direct production costs, shared production costs and support costs.

Disclosures

- G24.71 An NPO shall present fundraising costs gross. Cost must not be netted off from the income they have assisted in generating. This follows the general INPAG requirement to account for transactions gross except where explicitly permitted.
- G24.72 An NPO shall provide a narrative description of the method of cost allocation and bases of apportionment adopted to calculate fundraising costs.
- G24.73 An NPO shall disclose the following:
- a) costs of commercial trading ;
 - b) costs of selling donated or bought in items that are not a separate commercial activity;
 - c) expenses on fundraising costs also intended to raise awareness;
 - d) other material components of fundraising costs; and
 - e) a narrative description of activities that have a dual purpose, including whether costs have been allocated between activities and where fundraising is deemed incidental to the main purpose.