

# Practitioner Advisory Group

AGENDA ITEM: PAGED12-03

8 February 2024 – Online

## Fundraising costs

Summary	This paper provides the PAG with an overview of the development of the draft INPAG Guidance for fundraising costs that will be exposed for public comment as part of Exposure Draft 3. It also seeks comments from the PAG on the draft guidance.
Purpose/Objective of the paper	The paper provides the PAG with a summary of the issues related to fundraising costs that were included in the IFR4NPO Consultation Paper, respondents views on those issues and potential financial reporting approaches. It highlights how the Secretariat has developed guidance based on these views and the broader approach to the classification of expenses. It also details how the proposals for the scope of fundraising costs, multipurpose activities and disclosures have been refined through discussion with the TAG. It seeks PAG views on these areas and the overall draft guidance ahead of exposure for public comment.
Other supporting items	N/A
Prepared by	Philip Trotter
Actions for this meeting	<b>Comment</b> on: <ul style="list-style-type: none"><li>(i) the scope of fundraising costs and the requirement to calculate and disclose three distinct categories;</li><li>(ii) the pragmatic exemption for multi-purpose activities; and</li><li>(iii) disclosure requirements.</li></ul>

# Practitioner Advisory Group

## Fundraising costs

### 1. Introduction

- 1.1 This paper provides the PAG with:
- an overview of the issues identified with fundraising costs and potential approaches to developing financial reporting guidance for NPOs included in the Consultation Paper;
  - respondents views and the Secretariat's subsequent approach to developing the guidance for fundraising costs;
  - the draft guidance including the scope of fundraising costs, requirements where expenses relate to more than one activity, and disclosures.

### 2. Consultation paper - issues identified and potential approaches

- 2.1 Information about fundraising costs was identified as a key issue in the IFR4NPO Consultation Paper. It was highlighted that users often seek to compare fundraising costs to income generated and/or programme delivery costs to assess efficiency. It was also explained that this can sometimes be misleading, for example, fundraising costs are generally incurred before the corresponding income is raised. Fundraising activities and costs are also not always easy to define, with activities serving multiple purposes and expense allocation subjective.
- 2.2 From a financial reporting perspective, it was noted that there may be benefits to standardising the definition of fundraising costs, addressing general recognition principles and cost allocation, and introducing common presentation and disclosure requirements.
- 2.3 Respondents to the Consultation Paper were supportive of the description of the issue, although noted difficulties in assessing fundraising costs and the potential for their misuse as an efficiency metric.
- 2.4 The Consultation Paper noted that existing international frameworks did not specifically address fundraising costs, and that jurisdictional-level requirements did not provide a single view of the costs of fundraising or recognition and measurement principles. Three main alternatives for

inclusion in financial reporting guidance were presented. The first would allow NPOs to use any international framework with NPOs developing their own treatments of fundraising costs. The second would require just one international framework to be followed with disclosure of accounting policy. The third would see new NPO-specific guidance developed requiring fundraising costs to be disclosed based on a standard definition and list of activities along with the NPO's accounting policy and cost allocation methodologies.

- 2.5 Respondents were supportive of the list of alternatives, with a significant majority in favour of alternative three and the development of new NPO-specific guidance. It was noted, however, that a disadvantage for alternative 3 is that an NPO may not be able to report the costs of fundraising in a way that is most relevant to the entity due to the proposal that a standard definition of fundraising costs, including a narrow list of the type of expenditure to be classified as fundraising costs, be provided. For these respondents, because NPOs have different strategies for raising funds the types of fundraising expenditure can vary significantly and as such the definition of fundraising costs and activities would have to be sufficiently flexible to accommodate this.

### **3. Scope of fundraising costs**

- 3.1 The Secretariat's approach to developing the guidance for fundraising costs has taken into consideration the broader approach to the classification of expenses (which has previously been brought to the PAG for comment) as well as the potential alternatives highlighted in the Consultation Paper and the feedback received from respondents.
- 3.2 Initial proposals were taken to the TAG indicating that as part of the classification of expenses it was expected that fundraising costs would be a specified activity that needs to be presented for all NPOs. Guidance would be provided on the principles for identifying and allocating costs to fundraising, including where such costs are shared between fundraising and other activities of the NPO. Guidance would also be provided on how such costs are presented between funds with restrictions and funds without restrictions.
- 3.3 Proposals for the scope of fundraising costs were developed by the Secretariat that considered that the core costs of fundraising would relate primarily to event and grant activities. This included 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.

- 3.4 In addition to these core activities, other fundraising activities were considered. Trading and commercial activities undertaken with the single purpose of raising funds for use by an NPO in meetings its objectives were also considered. This reflected the Secretariat's view that while the commercial or trading activity may not in itself be a missional activity, it could be considered a type of fundraising cost. The fundraising costs here being the cost of the NPOs trading and commercial operations including costs to sell.
- 3.5 This raised a question surrounding charges that are made for services or goods being providing to service recipients as part of an NPO's mission. The Secretariat's view was that these charges are part of the NPO's operating model to deliver its mission and not a commercial activity, and therefore that the costs associated with providing the relevant services or goods would not be included as fundraising costs.
- 3.6 The final area considered for inclusion were investment management fees, being the costs of administration and portfolio management. These 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. Such costs were seen by the Secretariat as different in nature to other fundraising costs as they could be seen to relate more to the good financial management of existing resources rather than seeking to generate additional resources.
- 3.7 A focus group held on the scope of fundraising costs supported a broader scope to the definition of fundraising costs and the inclusion of trading and commercial and investment management activities. TAG members provided more mixed views, when they first discussed these categories. All agreed that the minimum disclosure of information about fundraising costs should be more tightly defined. This could see fundraising activities and disclosure of costs limited only to activities involving requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.
- 3.8 Other members, however, noted that information on costs related to commercial and trading activities such as the selling of merchandise that had the purpose of raising funds for the NPOs mission would be useful for users of general purpose financial reports, particularly if this was the single or main source of funds. Likewise it was noted that the disclosure of investment management costs as a category of fundraising costs could in some circumstances also provide useful information, particularly where return on investments was the main source of funds.

- 3.9 The TAG discussed the difference between fund raising and income generation and recognised that there is a fine line in distinguishing between the two.
- 3.10 To reflect the range of views the categories of fundraising activities that NPOs are required to calculate and disclose have been drafted in Section 24 Part III *Fundraising costs* as three distinct categories of fundraising costs - (i) Donations, gifts, grants and similar transfers (ii) Commercial and trading and (iii) Investments. The types of costs that each category of fundraising includes reflect input from the focus group and TAG member comments. It was agreed that this approach be tested with a specific matter for comment in the Exposure Draft.

**Question 1: Do PAG members have any comments on the scope of fundraising costs and the requirement to calculate and disclose three distinct categories?**

#### **4. Multipurpose activities**

- 4.1 Principles for calculating fundraising costs were developed to reflect the broader approach in the classification of expenses, with specific guidance for each category. This covers the approach to allocating and apportioning direct costs and support costs. For expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, it was agreed that these should be split between those related to fundraising and other activities using INPAG's cost allocation methods, where material.
- 4.2 As some amounts are not likely to be material a pragmatic exemption has been included. This has initially been framed in terms of materiality but this was removed as materiality is a pervasive concept. A pragmatic exception is now proposed (but not yet agreed) to reference undue costs or effort with the application of materiality moved to the Application Guidance.

**Question 2: Do PAG members have any comments on the pragmatic exemption to not split expenses where incurred for more than one activity if it would require undue cost or effort?**

## 5. Disclosures

- 5.1 It was agreed that costs related to each category of fundraising activities be disclosed separately unless an individual category is immaterial. To reflect TAG member comments on what information could be useful to users, guidance was also developed and included by the Secretariat to note that an NPO may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs are still presented gross.
- 5.2 As multipurpose activities are expected to be relatively common, the Secretariat also considered that NPOs should be required to provide a narrative description where activities have more than one purpose and costs have been allocated between these purposes and/or this has not been done due to materiality. This was supported by the TAG.

**Question 3: Do PAG members have any comments on the disclosure requirements for fundraising costs?**

## 6. Next steps

- 6.1 The draft guidance has been provided to the TAG for final comment. Subject to TAG views and those of the PAG and DRG the guidance will be finalised for public comment as part of Exposure Draft 3.

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## Annex A – Draft authoritative guidance

### Section 24 Part III *Fundraising Costs*

#### Scope of this Section

G24.61 This Part of Section 24 specifies the requirements for calculating and disclosing costs associated with fundraising activities. Whichever expense analysis permissible under Part II of Section 24 is adopted by an NPO, fundraising costs shall be separately calculated and disclosed either in the Statement of Income and Expenses and/or the notes to the accounts.

#### Fundraising activities

G24.62 Fundraising activities can be one of three distinct categories of activity that an NPO carries out to generate funds. These funds can then be applied to provide services and goods for the benefit of the public, carry out programme and similar activities in pursuit of the NPO's stated mission or objectives, or to support other activities.

G24.63 These categories are:

- (i) Donations, gifts, grants and similar transfers
- (ii) Commercial and trading
- (iii) Investments

G24.64 Fundraising activities do not cover the development of corporate documents applicable to the whole of an NPO's activities such as business plans or annual reports.

#### ***Donations, gifts, grants and similar transfers***

G24.65 This category of fundraising involves activities relating to requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.

G24.66 Fundraising costs in this category include but are not limited to those costs incurred in:

- a) seeking donations, grants and legacies including application costs;
- b) operating membership schemes or social lotteries;
- c) staging events, including performance fees, licence fees and other related costs;
- d) contracting with agents to raise funds on behalf of the NPO;
- e) researching and developing fundraising strategies and plans or prospective donors;
- f) advertising, marketing and direct mail materials, but *not* costs associated with educational material designed to further an NPO's mission.

#### ***Commercial and trading***

G24.67 This category of fundraising includes those activities where an NPO aims to generate profits from transactions that are on a commercial and trading basis for use in

achieving the NPO's mission. Fundraising costs in this category include but are not limited to those costs incurred in:

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

G24.68 Where a charge is made to partially cover the costs of services or goods provided to those intended to direct benefit from the NPOs activities, and those charges are part of the operating model established to meet an NPO's mission or objectives, the costs of those activities are not fundraising costs.

### **Investments**

G24.69 Where an NPO holds an investment that it relies on to generate returns to be able to carry out its missional purposes, investment management is a category of fundraising costs. Fundraising costs in the investments category include but are not limited to those costs incurred in:

- a) portfolio management
- b) obtaining investment advice
- c) administration of the investments
- d) costs of licensing intellectual property; and
- e) (for property) rent collection, property repairs and maintenance charges.

### **Calculating fundraising costs**

G24.70 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 those activities. In attributing costs to fundraising, an NPO shall apply the general principles in G24.48

G24.71 In accordance with G24.48, NPOs shall select methods of cost allocation that ensure that the financial reports present the costs of fundraising activities fairly. Different methods may be appropriate depending on the type of fundraising activity.

G24.72 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.

G24.73 Where an NPO has the commercial and trading activities outlined in G24.67, fundraising costs should include all costs to sell donated or commercial products including direct production costs, shared production costs and support costs.

G24.74 Where an NPO has investments and investment managers deduct management fees from investment income, the NPO should report the gross investment income, before fees and then report the management fees charged as a cost. Investment management costs specific to a fund with restrictions should be charged to that specific fund in accordance with the requirements of Section 36 *Fund Accounting*.



### ***Activities that have more than one purpose***

G24.75 Where an NPO has expenses that have been incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, they shall be split between those related to fundraising and those that are not related to fundraising using the cost allocation methods in G24.47.

G24.76 NPOs may consider all such costs as either relating to fundraising or another activity depending on what is the primary purpose of the activity where the splitting the costs results in undue cost or effort.

### **Disclosures**

G24.77 Costs related to each category of fundraising activities shall be disclosed separately.

G24.78 An NPO shall present fundraising costs in each category 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. Where an NPO deems that users of the general purpose financial reports would find the information useful, it may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs are presented gross.

G24.79 An NPO shall provide a narrative description of the method of cost allocation and bases of apportionment adopted to calculate fundraising costs. Where activities have more than one purpose, an NPO shall provide a narrative description of these activities including whether costs have been allocated between more than one purpose and/or the pragmatic exemption in G24.76 has been applied.

## **Section 24 Part III Application Guidance**

### **Activities that have more than one purpose**

AG24.01 NPOs may utilise the pragmatic exemption in G24.76 and consider all fundraising costs for a particular activity/campaign as either relating to fundraising or another activity depending if the costs are for more than one purpose. The pragmatic exemption applies when the costs of carrying out the split are greater than the benefit. It is most likely to be used when the amounts involved are small or the allocation between fundraising and other activities involves amounts that are immaterial. The allocation shall depend on the primary purpose of the activity/campaign.

### **Disclosures**

AG24.02 Costs related to each category of fundraising activities shall be disclosed separately unless an individual category is immaterial. This is necessary to ensure transparency and comparability of fundraising costs as the nature of the costs associated with each category of fundraising activity may vary significantly.