New Philanthropy Capital

Just the ticket

August 2003

Research: Fundraising events

Executive summary

- **This report for trustees, charity professionals and those on event lay-person committees aims to increase the understanding of charity fundraising events.** It covers the motivations for attending a fundraising event, the cost and income streams and the efficiency of events. Furthermore it looks at how events can best fit into a broader fundraising strategy. It concludes with a critique of the current UK legislation covering fundraising events.

- **Fun, exciting, extravagant and often risky** - fundraising events open up streams of income that other fundraising methods cannot, even though events are one of the least productive methods for a charity to generate income. Yet this does not necessarily imply that fundraising events are an inefficient method to raise income.

- **Anyone attending a fundraising event receives some private benefit**, for example a meal or entertainment - in contrast to more philanthropic means of supporting a charity such as committed giving plans or sending a cheque in the post. By catering for a group of people who wish to gain something themselves, a charity can broaden its group of donors beyond those who purely believe in the charity's mission.

- **Awareness is a justifiable objective for an event if future income is raised as a result of the publicity generated.** We recommend that charities should begin to track their donors more effectively to understand whether awareness generated by events does, as is assumed, actually increase future income.

- **Segmentation of those attending the event by their wealth and motivations can ensure that the maximum amount of money is raised from the event.** At the right point in a charity's life cycle or for the charity that operates in a niche area, this opportunity to fundraise from a broader supporter base can be vital. Set within the correct fundraising strategy, the fundraising event can be an efficient method for raising money.

- **We believe the fairest cost to report is total direct costs plus the allocated staff costs.** Many charities report the cost of an event as simply the total cost of all tangible inputs. Our research appears to suggest that the higher the cost per head of an event, the less productive the event is, but further work in this area is required.

- **Current legislation and best practice statements provide a variety of methods for operating and accounting for fundraising events** (part of a charity's trading activities) such as the use of trading subsidiaries. This can make comparisons between charities at best difficult and often meaningless.

- **We disagree with the Government's recent decision not to allow charities to trade through the charity.** Charities should be allowed to trade, notably for the purposes of fundraising, directly through the charity. But for activities which the trustees deem to be very risky, a separate trading subsidiary should still be allowed. In addition, if charities can justify generating awareness as an objective we recommend that charities should make use of their Trustees Report to explain the full fundraising strategy, rather than the current one-off yearly snapshot produced by the figures alone.

- **Our recommendations aim to foster increased consistency and clarity whilst allowing charities to retain a degree of operational flexibility.**

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Section I - Introduction

The purpose of this report

The aim of this report is to attempt to bridge the gap between the 'how-to' guides and the extensive academic literature on fundraising so as to increase the understanding of those both directly involved with charities and policy makers. The report seeks to increase the understanding of charity fundraising events, both in terms of the motivations for supporting an event and the costs and income streams, finally to evaluate the efficiency of fundraising events. We also discuss the current legislation on the accounting of fundraising events and provide recommendations on how this legislation could be improved.

The content of this report

The research is based on interviews with events organisers from twenty charities of varying sizes covering the different charitable sectors. Interviews were also conducted with fundraising consultants, professional events organisers and event committee volunteers. It should be noted that this report does not seek to cover small, community, fundraising events although much of the discussion that follows is relevant to such events.

The fundraising event is a popular method to generate income and is used by charities of all sizes across all sectors. Given the wide variety of fundraising techniques available, are fundraising events an efficient way to raise money, or would the money invested in events be better spent on other fundraising methods? Events vary from sponsored bike rides to fashion shows to annual balls but all events share one defining attribute, the participant or attendee gains some private benefit, be it a sense of personal achievement, an opportunity to show their generosity or simply just having fun. The fact that the participants are supporting the charity may come secondary to the private benefit they gain from attending the event. Fundraising events therefore provide a means for charities to broaden their donor bases beyond those whose only motivation to support the charity is their fundamental belief in the particular charity's cause.

This report aims to increase the understanding of charity fundraising events in terms of motivations for support, costs, income and their efficiency.

The downside of events is that they are often very costly to run both in terms of time and money. Second, there is the risk that the resources invested fail to yield a significantly productive fundraising event. In economic terms, an event can be classed as efficient if the money (and time) spent on the event could not have been better invested in another fundraising activity that could have raised a greater amount. Many fundraisers see events as increasing public awareness of the charity rather than purely raising funds, a legitimate objective so long as it is not used as an excuse for an event that failed to make money. Yet as long as the efficiency of fundraising events is analysed in a dynamic sense (over the medium term), awareness as an objective can be justified if the future stream of donations is productively increased. Further research is needed to understand the value of awareness raising at events.

This report is outlined as follows: Section II looks at general characteristics of fundraising events including the profile of typical event attendees. Section III details the costs involved and looks at the fairest methods of reporting and allocating the costs of events. Section IV discusses how to maximise event income.

Charities can seek to maximise event income through adept donor segmentation. Donors can be segmented first by their motivation for attending an event, and second, by segmenting in terms of wealth or by offering different types of events and activities at events at different prices to ensure that the maximum amount of money is extracted from each participant. Those who wish to donate more than the ticket price can do so either via an auction, offering a significant private benefit through signalling wealth, or via an appeal allowing for the more philanthropically motivated donors. Gift Aid should also be utilised to ensure all donations are maximised. At the majority of events that involve auctions or appeals, the "Pareto rule" tends broadly to apply, that is approximately 80% of the money raised comes from 20% of those attending.[1]

Section V brings together costs and income to measure the productivity of an event. The efficiency of fundraising events is analysed using a stylised fundraising matrix.

On paper, compared to other fundraising methods such as legacies or committed giving, fundraising events are relatively unproductive. But this is largely due to the afore-mentioned techniques relying on a philanthropically motivated donor. Such a donor leaves a legacy to a

[1] Koch (1999)

charity or signs up to a committed giving scheme because he or she believes in what the charity does and is not concerned about receiving any private benefit from their donation. By relying on solely philanthropic donor pools, a charity limits its potential donor base. Fundraising events offer a means to extend to a larger donor pool by offering some private benefit as a major but not necessarily primary motivation for participation. It is then up to the charity where possible to develop a donor into a lower cost, more philanthropically motivated supporter of the charity.

Section VI discusses the difficulties in current legislation about accounting for fundraising events and provides recommendations for future legislation. In Section VII, we draw some conclusions.

One issue covered in Section VI concerns how charities should report their involvement in fundraising events. The Charity Commission states that charities must be open about fundraising so as to allow, amongst other things, charities' performance to be compared in the public domain. Yet the difficulty at present is that advice and legislation from both the Charity Commission and the Inland Revenue does just the opposite by suggesting a variety of methods to account for fundraising events. This conflicting advice makes comparisons between similar charities virtually impossible. This conclusion is supported by Government calls for improved methods for apportioning costs and expenditure to increase the clarity of information provided by charities in the public domain.[2]

This report supports the Strategy Unit recommendation that charities be allowed to run all their fundraising events within the charity and is disappointed at the Government's recent decision not to allow trading directly through the charity. We believe charities should be allowed to trade for the purposes of fundraising directly though the charity. For activities which the trustees deem to be very risky, a separate trading subsidiary should still be allowed and the activities of the trading subsidiary should be recorded on a consolidated basis. These recommendations will foster consistency in reporting whilst allowing charities to retain a degree of operational flexibility. If awareness generated by events does have a medium to long term impact on income, charities should make use of their Trustee Report to describe a longer-term and more complex fundraising strategy.

[2] Home Office (2003), Strategy Unit (2002)

Section II – Characteristics of fundraising events

What is a fundraising event?

According to the Inland Revenue and HM Customs and Excise a fundraising event is "an event clearly organised and promoted primarily to raise money for the benefit of the charity or qualifying body… People attending or participating in the event must be aware of its primary fundraising purpose."[3] Fundraising, with a few exceptions, is exempt from VAT and direct tax based upon the EC Sixth Directive on VAT, adopted in the UK in 1989. However, any fundraising event which is classed as a trading activity will not receive VAT exemption to prevent unfair competition with other organisations holding similar events who do not receive the benefit of VAT exemption. Furthermore, for the purposes of tax relief, social events which incidentally make a profit will not be exempt from tax.

A fundraising event by law is organised and promoted primarily to raise money for the associated charity.

HM Customs and Excise consider that the following events may be held for fundraising purposes:

- Auctions of bought-in goods
- Bazaars, jumble sales, car boot sales, good-as-new sales
- Dinner dances, balls, discos or barn dances
- Endurance participations, treks
- Exhibitions; such as art, history or science
- Fetes, fairs or festivals
- Film showings
- Firework displays
- Games of skill, contests, quizzes
- Horticultural shows
- Lunches, dinners, barbecues
- Performances; such as concerts, stage productions, and any other events which have a paying audience
- Sporting participations (including spectating), such as sponsored walks or swims, bike rides
- Sporting performances[4]

If fundraising activities meet HM Customs and Excise criteria for VAT tax exemption, as described above, they will automatically qualify for the exemption from income tax and corporation tax. Fundraising events legislation and recommended practices will be further discussed in Section VI.

Why do people attend fundraising events?

At its most basic level a fundraising event, which by definition has the objective of raising money for a charity, must convince a consumer to part with more money than such an event actually costs.[5] In economic terms, a rational consumer would not choose to attend and pay for a dinner priced at £100 if it can bought in a restaurant for £50 (which includes the restaurateur's profit). So why do people attend a fundraising event knowingly paying more than it costs? We begin with a brief discussion on why people support charities.

Why do people give to charity?

Early academic models of charitable giving described donor motivations as being altruistic or philanthropic implying donors are only concerned that the charity furthers its cause as far as possible.[6] These models implied that a donor did not care whether the money was raised indirectly via taxes or directly via donations. That is, out of the total revenue the government receives from taxation, part of this revenue may be used to support social needs (often via charities), hence a taxpayer could be said to be indirectly supporting charities. These philanthropically motivated donors are very low cost to service as they will respond to low cost marketing, for example a mail shot or a telephone call, simply because they believe in the underlying charitable cause.

People give to charity for a variety of reasons; altruistic, to receive a warm glow, to lead others or to signal their wealth or generosity.

[3] Inland Revenue and HM Customs and Excise (2000)
[4] Charity Commission (2001)
[5] We leave aside for now publicity events which aim to only break even as they by definition are not fundraising, even though they may induce donations in the future
[6] Roberts (1984); Bergstrom, Blume and Varian (1986)

Later research was produced accounting for less philanthropic donor motivations. The first additional or alternative motivation offered was the “warm glow” factor.[7] Donors enjoy giving to charity and the more they give the more “warm glow” they receive. This “warm glow” motivation helped explain why giving indirectly to a cause via taxes is not a perfect substitute for private donations, as earlier models had predicted, since no “warm glow” is gained by paying taxes.

Signalling has been offered as another form of donor motivation.[8] Making a large publicly announced donation or buying an expensive charity auction item can be used by a donor to signal wealth, prestige or generosity. It may also be used philanthropically in the form of leadership giving to show support for a cause in the hope that others will follow.

In this report, we hypothesise that the motivation to attend a charity event must have some private element to it. Private benefit accrues to the individual event attendee and is distinct from the benefits which accrue to the charity. The alternative is that the donor is philanthropically motivated and therefore would be happy to support the charity by sending a cheque in the post.

Why do people choose to attend a fundraising event?

We believe the motivation to attend a charity event must have some private element to it.

The total amount spent by a person supporting a fundraising event can be broken down into two portions. The first portion is the amount that covers the cost of the event. The motivation to pay this portion must be private, that is to enjoy the event (or to gain some other private benefit). If the event involves a bungee jump for instance, then this portion includes the cost of the bungee jump and other items such as refreshments. The other portion spent by the participant represents a donation - the net money raised by the charity that will go to support the charitable cause. Several motivations for this second portion are possible:

- Philanthropic
  - the donor believes in the underlying charitable cause. A philanthropic donor supporting a charity through an event can be said to have mixed motivations, some philanthropic, some private
- Purely private
  - the event is unique and contains elements with no meaningful monetary value, for instance a glitzy party, business networking or something specific but non-repeatable such as dinner with a celebrity
- Prestige
  - person wishes to be seen at the event as it provides either a signal of wealth or of social grouping
- Leadership
  - to encourage others to give, show of generosity
- Relationship with the charity
  - donor has direct personal experience of relevant cause, for example losing a friend or family member to cancer
- Warm glow
  - donor takes enjoyment from giving to charity
- Associated warm glow
  - supporting friends or associates who are organising the event
- Peer pressure
  - friends and committee members encourage attendance

In most cases, those attending events run by committees are either the friends or contacts of the committee.

In practice, we believe a significant reason why people attend fundraising events is for private benefit, either because the event is enjoyable, for example, for business networking or to support friends. This conjecture is supported by a recent study commissioned by The Giving Campaign on fostering a high value supporter base.[9] The study looked at the profiles of high value supporters concluding many enjoy the prestigious social networks, require regular contact and involvement in special events to reflect their status and have the expectation of being courted and offered hospitality – all private benefits.

As with many other forms of fundraising, actually asking people to come to an event is also an important drive of attendance. The support of friends is a corollary of a significant aspect of successful fundraising events such as balls and dinners - a well connected volunteer based organising committee. That is, in most cases, those attending events such as balls and dinners are friends or contacts of the committee (see Section II). Events are competing for people’s time as well as their money and marketing an event on the basis that it is in

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[7] Andreoni (1989,1990)
[8] Glazer and Konrad (1996); Harburgh (1998)
[9] The Giving Campaign (2003)

support of charity is by no means sufficient to ensure attendance and success. As many event organisers put it – "they have to be fun and interesting".

The motivation of a lay-person committee to organise an event can often be for their own private benefit as they enjoy putting on and being involved in prestigious events.[10] One of the difficulties with relying on lay-person committees is that when the organisation of the event is not going well, these people, who are volunteers, are much harder to remove from involvement with an event than professional events staff.

How do fundraising events differ?

Events differ by their objectives and the profile of attendees the charity wants to attract.

Fundraising events come in all shapes and sizes and are only bounded by the organiser's imagination. One simple way to differentiate events is by type. Table 1 summarizes the major categories of fundraising events.

Events can also be differentiated by what they are trying to achieve and the profile of guests the charity wants to attract.

- Development of donors
  - Extra income from current donor base without cannibalising previous sources
- Thanking current supporter base
  - An excuse to write to a group of current supporters
- Social or community-based occasion
  - Prepared to run a lower productivity event in the hope that it will develop future support
  - Attract new supporters and use the event as an opportunity to explain more about what the charity does
- Acquisition of new support, especially young people
- Looking after current donors
- Networking for attendees
  - Events based on business networking
  - Majority of those attending care little for the charity
  - Some potential as a lead-in to corporate sponsorship
- Maintaining brand name, especially for large household-name charities
  - Celebrity attended events which get covered in the national press
  - Events such as concerts and challenges often widely publicised whereas tickets for dinners and balls sold through friend or business contact networks

Awareness as an objective

Awareness is a justifiable objective for an event if future income is raised as a result of the publicity generated.

Many charities cite raising awareness as an additional if not key objective when running fundraising events, borne out by virtually every charity interviewed for this study. Yet there is no known research conducted in general form or by any charity that can substantiate raising awareness as increasing future donations. Justifying awareness rests on the assumption that either the size or number of future donations is increased as a result of the advertising and publicity of a fundraising event.

An understanding of the people structure involved in fundraising events can be helpful to draw inferences on the awareness created by an event. For the majority of events, the awareness an event creates is generated by advertising the event. Two distinct examples are highlighted below.

Example 1 – Challenge events

For trekking or similar, small number challenge events only a small group of charity professionals are required to organise and administer the event, sometimes with the help of a few unpaid volunteers. Awareness is raised as these events are typically advertised using a subset of the charity's database. An initial e-mail or mail shot can be seen by over 1,000 people. Additional small advertisements may be run outside of the charity's known supporters. Friends and contacts of the events' organisers tend to make up only a small proportion of the total participation.

[10] The Giving Campaign (2003)

Charities should track their donors and donations more effectively to understand whether awareness generated by events does raise additional income.

Example 2 – Balls and dinners

Balls, dinners and similar events are built up differently to challenge events and so awareness is created in a different manner. Top of the pyramid is the Chair of the event. Many argue that the Chair is the key figure driving the success of the event and his or her leadership is crucial. Under the Chair is a committee of maybe 15-20 people. In many cases each committee member is expected to bring a table of ten people to the event. Committee members may typically ask three friends to get one positive response. Further attendance at the event is made up by friends of friends and other small groupings. Therefore the awareness of the event and the charity may reach about two to three times the total attendance.

The calculations in the figures below exclude press coverage, received by a small number of fortunate charities running events. At the local level an article on an event may be read by thousands of people. For national press, maybe a hundred times more people might glance over the article.

One of the difficulties encountered in this study was obtaining detailed data on the attendance at events and more specifically any gauge of awareness generated. A method beginning to be adopted by some charities to gauge awareness created by events is to ask new donors to the charity how they heard about the charity. A database of responses can then be built up over time and analysed. Charities should begin to track their donors more effectively to understand whether awareness generated by events does, as is assumed, actually increase future income.

Virtual parties allow charities to raise money from an "event" without actually holding the event.

Table 1: Different types of fundraising events

Type of Event	Description
Auctions	Catering for the private benefit motivation either through the acquisition of desired goods or simply to signal wealth. The best auctions comprise unique goods that have no observable monetary value. Professional auctioneers or celebrities are often brought in to run the auction
Balls	Annual balls are often used as the yearly focal point for a charity. Balls present the charity with an excuse to make contact with a certain group within its supporter base, often using the opportunity to ask for a donation. Furthermore annual balls allow the charity a brief chance to present the image and work of a charity to a busy group of guests. Annual balls can also be useful to acquire new donors
Cause-related marketing and piggy-back events	The charity pays little or no costs and just receives the gross income from the event. The company marketing their product covers the costs. Cheques written at the event often have to be written out to the charity not the company so that people do not think that the company is skimming off the top
Challenges Treks	Adventure and endurance events, primarily motivated by individual personal benefit and sense of achievement. Participant often raises sponsorship for taking part
Dinners	Similar to balls but often have an after-dinner speaker to attract guests
Lunches	Usually lower key than dinners or balls. Many are focused round the business communities and used for networking. Others are formed from social networks who support several charities
Quizzes	Low cost events that can be run simultaneously round the country
Small replicable events	A small event such as a dinner in someone's home or a coffee morning replicated many times around the country. Requires administrative support from the charity
Virtual parties	Invitations sent out saying that no party is actually going to happen but asking for support for the charitable cause. Targeted specifically at those who do not have the time to go to all the events they receive invitations for, or who simply do not enjoy events. An astute variation of direct marketing mail shots

For the majority of events, awareness is raised by advertising to part of the charity's database. Newspapers and press coverage are an additional bonus.

Figure 1: Challenge event pyramid — *Number of people*

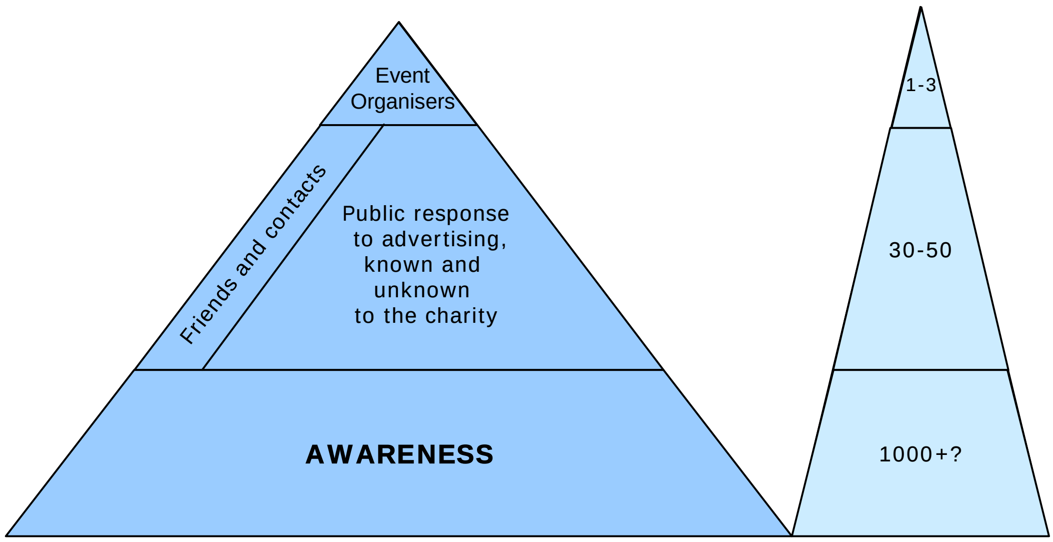
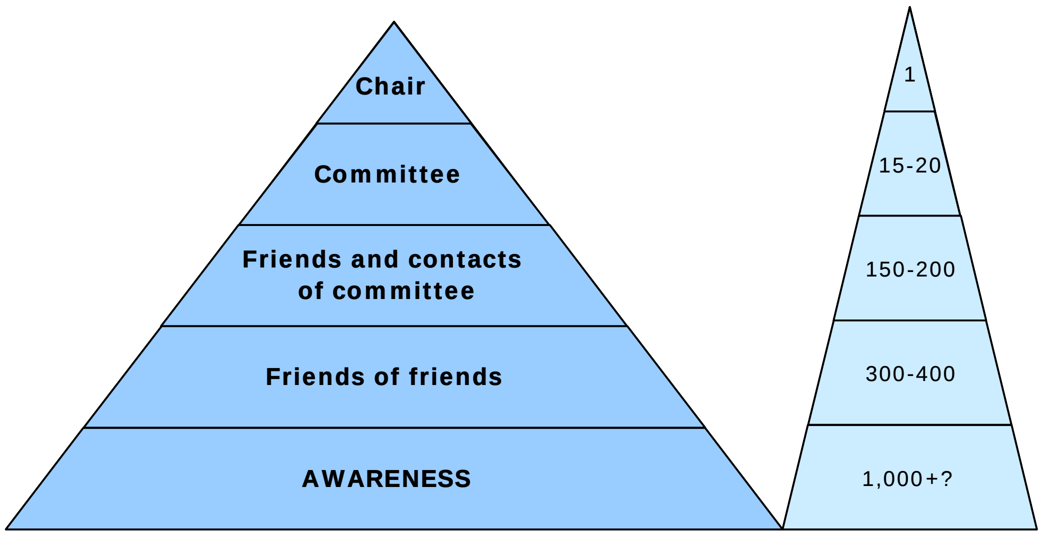


Figure 2: Ball / dinner pyramid — *Number of people*



The use of Information Technology

Many charities need to update, clean and integrate their supporter databases.

The most common fundraising campaign that charities use the Internet for, excluding a charity's annual fund, is to advertise fundraising events.[11] For events targeting people under the age of 30, e-mail has become an increasingly common form of communication. E-mail has the great advantage over postage that it is a virtually costless method to disseminate information both about specific events and the charity itself.[12] Consistent and deliberate e-mail communication driving the donor to a detailed charity website, which is much less aggressive than bulky, expensive hard-copy literature, has become a successful technique for many charities.[13]

Several challenge and endurance events are beginning to offer their participants online fundraising pages such as the website justgiving.com, used successfully recently in conjunction with the London Marathon. One area where development is required in many charities is the updating, cleaning and integrating of their supporter databases, especially between departments.

In the next section, we switch the focus to the organisers of the event to understand the costs involved in putting on an event and the methods used to maximise income raised.

[11] Sargeant and Jay (2002)
[12] Average cost of white mail is 30-50p. Average all-in cost of an email is 0.5p (Charity Technology Trust, 2003)
[13] Hart (2002)

Section III – The costs involved in a fundraising event

Costing a typical fundraising event

The direct costs of an event will often be reported as the costs of an event in a charity's annual report.

Studies show that adding allocated staff costs typically add over a third to the direct costs of an event.

In this section, we look at the costing of a fundraising event. Table 2 shows the breakdown of costs for a typical event such as a fundraising dinner, based on information from the sample of charities surveyed. The second column in the table shows the real cost of each item. The third column lists the items which are often donated to the event for free. This produces the fourth column – the reported costs of a typical event.

The costs are broken into three groups. The first group is direct costs. These include all the tangible costs of the event which are necessary to make it happen from the catering to the venue to the photographer. In many cases the line item total direct costs is the cost of the event which will be reported in an annual report as fundraising expenditure or as total costs within a separate trading company.

Yet to understand the real costs of putting on an event, two other inputs need to be accounted for. The first is the market value (where possible to estimate) of any items to be sold in any auction or raffle. For the majority of events, these items will be donated, but they are a necessary input to the event since they generate revenue. Second, charity event team staff costs must be allocated correctly to each event. In our example, we have assumed that one junior member of the events team spends three months of the year working on the event and a senior member of the events team spends cumulatively one month's worth of time working on the event.[14]

Including staff time adds almost 50% to costs in our example and though donated goods are often very hard to value, their inclusion raises the costs further. Evidence from the Fundratios study shows staff costs typically add 36% to the direct costs of an event.[15] This addition can turn events that appeared to be profitable into loss-making events. The second striking comparison is between the real cost of an event and the example typical costing. The value of goods in kind given such as flowers or wine (excluding any auction or raffle items) can easily account for over one third of the real cost of an event.

Table 2: Example costing of a fundraising event

Items	Real cost	Given for free	Typical cost
Direct costs			
Catering @ £40/head	£12,000	No	£12,000
Venue Hire	£5,000	Nominal price	£500
Drinks	£1,000	Yes	£0
Printing	£800	Yes	£0
Flowers	£300	Yes	£0
Photographer	£200	No	£200
Entertainment	£500	No	£500
Volunteer Expenses	£200	No	£200
Total direct costs	**£20,000**		**£13,400**
Donated Goods			
Raffle	£3,000	Usually free	£0
Auction	£5,000	Usually free	£0
Total Donated Goods	**£8,000**		**£0**
Staff			
Junior staff for 3 months	£6,000	No	£6,000
Senior manager for 1 month	£3,000	No	£3,000
Total Staff	**£9,000**		**£9,000**
All items	**£37,000**		**£22,400**

[14] One could go further and try to value volunteer-fundraiser time but this in itself is a contentious issue
[15] Fundratios, Centre for Interfirm Comparison (2002)

The fairest representation of the costs of an event should be the total direct costs plus the allocated staff costs.

Given that the value of donated goods for auctions and raffles is so hard to estimate and many unique items have no true market value, inclusion of donated goods in total costs proves to be too inconsistent. There is no doubt that without the charity events team working on the event, the event would not happen and staff are therefore a vital input cost to an event and must be included and allocated to the total costs. We conclude that the fairest representation of the total cost of an event is the total direct costs plus the allocated staff costs, putting the real cost of our example event at £29,000 (that is £37,000 minus £8,000). For a small charity fundraising event run solely by volunteers, the allocated staff cost will be zero.

In summary, the commonly reported cost of our example fundraising event would be £13,400. The real cost of the event, includes those items typically given for free is £22,400 but the total cost to society of the event is £37,000.

How responsive are event costs to the size of the event?

One of the major differences between events is their size. To enable comparison between events of different sizes a metric of cost per head can be used. For the example above, if 300 people attended the event which costs £29,000 including staff to put on, cost per head works out at just under £100.

If the event were run next year for 400 people, would the cost per head fall? Economies of scale exist if the cost per head falls as the size of the event increases. Take for example a photographer. Only one photographer is needed in our example event. Assuming the photographer costs £200, if 100 people attend, the cost per head is £2 but if 200 people attend, the cost per head falls to £1. Therefore the photographer expenditure is subject to economies of scale (up to a point). Expenditure items that are one-offs that do not increase in cost as the event size increases can be said to be subject to economies of scale. If these items make up a significant proportion of the total costs of an event then there is an incentive to make an event as large as possible to reduce the cost per head of each of these items.

For the majority of events, there are few possibilities to lower the average cost by increasing the size of the event.

Looking at Table 2 above, few expenditure items are one-offs that do not alter with the size of the event. Catering costs increase directly with each additional person attending. Drinks and printed materials are also closely related to the number of those present. The venue once booked will cost the same whether it is full or not but good planning should enable a venue to be booked so that it is full relative to the number of people. One item which can be significant in terms of economies of scale is the entertainment. Hiring expensive entertainment will cost the same whether playing to 100 people or 500 people.

In our example above, increasing the event size to 400 people next year (and assuming a larger venue can be hired for a proportionately higher cost) lowers cost per head from £97 to £88. Though cost per head has fallen slightly, this decline will be abated once an attendance of about 1,000 people is reached. Above this level, costs are greatly increased as purpose built venues are required as opposed to hiring a large room at an hotel or a museum.

In contrast, for an event such as a concert which has one large fixed input cost, the entertainment, increasing the size of the audience will reap significant economies of scale and reduce the cost per head. Overall though, for the majority of events there are limited possibilities to reap economies of scale, especially for those involving a significant variable cost – the food at a dinner, or flights and accommodation for a trek. Replicability is one technique to help keep costs down and may even reduce costs year on year as relationships are built-up and event organisation techniques improved. Overall though, bigger events do not necessarily always mean cheaper events.

Section IV – Maximising event income

There are several streams of income available for a fundraising event shown in Table 3 below.

Table 3: Streams of income for the main categories of events

	Concerts	Dinners balls	Large challenge or endurance	Treks
Ticket sales / entry	X	X	X	X
Auction	–	X	–	–
Raffles, tombola	X	X	–	–
Advertising and sponsorship	X	X	X	X
Donations from an appeal	X	X	–	–

To maximise income, event organisers need to segment attendees by their wealth and their motivations.

To maximise the gross income from an event, the organisers must be able to extract the greatest amount of money that each supporter is willing to give. The income from supporters is a function of two attributes; wealth and individual motivation. Therefore to maximise income, organisers need to segment the attendees by engaging in price differentiation to exploit supporter's wealth and by their motivation.

Price differentiation

Price differentiation is an economic term which in its purest sense means charging each individual consumer the maximum amount they are willing to pay for a product or service. The price a consumer is willing to pay can often be higher than the marked price of a product in a shop or the advertised price of a service. For example, an airline serves to transport people from one location to another. Yet business travellers are often able to pay much more than the average tourist for the same trip because the company is paying, and are willing to pay more because they can buy a better level of service and be fresher for their work when they land.

In terms of a fundraising event consumers are supporting a charity. The more money they spend at an event, the more money the charity will receive to achieve its aims. Attendees decide at an event how much (financial) support they wish to give to the charity.

To raise extra income ticket sales need to be supplemented with additional methods of fundraising such as appeals, auctions and raffles.

Take the following example. Three people choose to attend a fundraising event. Each knows how much money they would like to give to the charity in support of the cause or simply spend on the event. Person P is willing to spend £200, person Q, £120 and person R, £100. The event has a fixed price ticket of £100. The definition of success for maximising income from the event would be to raise £420 (the total maximum amounts that each donor is willing to pay). Yet if the event only relied on ticket income, it would only raise £300. By providing extra fundraising methods additional income can be raised. Person Q is willing to give another £20 at the event so would be a suitable buyer for raffle tickets for example. Person P is willing to pay another £100 and may be suitable for either the purchase of an auction item or respond to an appeal.

A major determinant of how much a person is willing to pay for a ticket for an event and how much they are willing to supplement this expenditure (through a donation, or purchase of a raffle ticket or auction item) is dependent on his or her wealth. Apart from shows and concerts which charge higher prices for better seats, ticket prices for most fundraising events (treks, fashion shows, balls, dinners) tend to be fixed at one price.

As the example above shows, if ticket price alone is left as the only income stream for an event, it will fail to maximise income. Given that everyone attending has paid for a ticket this is the minimum amount they are willing to spend. But as wealth differs, this will certainly not be the maximum that certain participants are willing to spend. What is therefore necessary at an event is to have additional ways to extract extra income from the higher value guests. Before discussing how that can be done, attendees must also be segmented by their motivations. This may be done in several ways.

Motivational differentiation

In Section II we discussed the alternative individual motivations that explain why people support and attend a fundraising event. To raise the maximum income from an event, fundraising techniques must be based on the motivations of those attending. If, for example, the majority of people attend the event purely for their own private benefit – a fun and unique event, and have no philanthropic history of supporting the charity previously, then additional fundraising methods must take this into account. Therefore, a raffle or tombola, which provides further private benefit to participants, would be a sensible method to choose. An appeal on the other hand, which relies on people actually believing and being interested in what the charity does is unlikely to be successful at such an event. Several methods are available to event organisers to maximise income at an event dependent on the wealth and motivation make-up of the pool of participants.

Appeals

Appeals supplement income by engaging those who believe in the charities cause.

An appeal at an event is one method to supplement income by engaging those attending who believe in the charity's cause and are in part philanthropically motivated. Again, depending on how the organisers gauge "the room", appeals can be run as a private donation. That is, at a dinner for instance, an appeal video or speech followed by guests writing personal cheques or pledges at their tables. This method caters for the most philanthropically motivated people. The advantage of a private response to an appeal is that it allows for pure price differentiation – each participant can give exactly the amount they wish to.

Research suggests that donors often give the minimum amount necessary to be classed into a particular category of donor.[16] An appeal can ask for a specific amount that will enable the provision of a particular service. Alternatively patron programmes can be set-up for those who give above a certain amount per year. If the bottom rung is £5,000 to become a patron, the vast majority of patrons will give exactly £5,000.

Appeals can also be used in a more public sense. Two methods are popular. The first uses a club effect, where no individual is willing to pay for the whole item but a whole table at a dinner for instance may club together to donate one significant item.[17]

The second method makes use of the leadership effect where one person or a group of people announce they have made (or will pledge) a significant donation to the charity.[18] Other philanthropically motivated people will then follow suit. Such leadership is a vote of confidence for the charity and any specific project the appeal may be for. The leadership effect needs to be carefully understood though. An announced donation (leadership donation) will lead to increased donations if the group the leader is trying to encourage to donate (the potential followers) are philanthropically motivated. Notably, if the potential followers are privately motivated, for instance enjoy signalling their wealth, then a large announced donation may cause the donations from the followers to fall as their donation will seem less impressive given the large leadership donation. What is clear is that a careful understanding of the makeup of "the room" or those present is crucial in deciding upon a fundraising strategy.

As long as the donation in response to an appeal is independent of any private benefits at the event, the donation can be Gift Aided and therefore a tax-efficient method for the charity to raise additional income at the event.[19]

Raffles

Raffles are an easy method to raise small amounts of additional income.

A raffle can be used to extract a small amount of extra income from those present, such as person Q in the example above (who was only willing to give a small amount above the ticket price). Raffles are easy to run at an event, and are usually popular so long as some good prizes have been obtained (ideally for free).[20] Raffles cater for the weakly "privately motivated" participant. Though the buyer realises that the chances of winning are small, private enjoyment is gained from the hope of winning or if a prize is won. Other people may take part in a raffle from more philanthropically-based motivations realising that the chances

[16] Harburgh (1998)
[17] Olson (1965)
[18] Romano and Yildirim (2001), Andreoni (2002)
[19] Gift Aid is a scheme set up by the UK Government to allow for tax-efficient giving. For more information see www.inlandrevenue.gov.uk/charities
[20] Sometimes these prizes have to supplemented by the charity at a cost, such as adding flights to a donation of a week in a villa

of them winning are very small and so see it as a donation. The sale of a raffle ticket is a trading activity and therefore cannot be counted as a donation and crucially Gift Aided. Selling raffle tickets within the context of an event is therefore not an efficient method of raising large sums of money.

Auctions

By bidding for an expensive auction item, a participant can signal wealth or social status.

Auctions can serve a unique purpose at an event as they have a very public nature. Though small auction items may be sold in a silent auction, the method for selling large items is always through the familiar open-cry (English) auction. By publicly taking part in an open-cry auction, a participant can send a signal of wealth or social status by bidding for an expensive auction item. A participant need only bid for item to send a signal – the item does not have to be purchased.[21] Auctions can raise, at top fundraising events, six-figure sums. If organisers of the event wish to price discriminate towards the top few percent of wealthy individuals in the room who wish to signal publicly (if they wish to keep quiet, a large donation can be made in response to an appeal), an auction is the preferred method.

Following interviews with a top London auction house and many charities that run auctions either as stand-alone events or at an existing event, several additional points can be made:

- Auctions only involve a small proportion of the those at a fundraising dinner or ball so should only have a limited time allocation
- Auctions generally need about two minutes per lot so most auctions are limited to about ten items
- Given these two constraints and the desire to maximise income very quickly a skilled auctioneer is vital
- Most importantly, the items that achieve the greatest return in an auction are unique items with no observable market monetary value. A large bid with the proceeds going to charity is easier to justify for a unique item than one of which the bidder knows the value and can bought outside of the auction

Corporate involvement

Companies can support charities in two ways. The first is via a charitable budget, the second through the marketing budget. When it comes to events, expenditure usually falls under the marketing umbrella. A company may choose to sponsor an event, in which case it is furthering its brand. If corporate sponsorship is part of a marketing budget, the company will be interested in sponsoring a charity whose supporters are of a similar profile and make-up to its customers. A corporate sponsor could be tied to the event as headline sponsor and receive significant advertising at the event. For instance, a private bank may be interested in sponsoring an event whose guests are high net worth individuals. Alternatively, it may be using the event for corporate hospitality, again part of the marketing budget.

Companies tend to support charities as part of their marketing activities to further their brand.

A tax-efficient method to maximise income at an event is to have the costs of the event covered by a sponsor who is spending part of a marketing budget. If the whole cost of the event is covered, admission to the event can be offered for free. Then an appeal can be made at the event and the donations of those present can be Gift Aided. Furthermore, the charity can say that every penny in the pound given in response to the appeal will go to the charity. Given that the price of giving is known to be significant in determining the level of private donations, this announcement should raise income further.[22]

Summary – Maximising event income

The key to maximising gross event income is for the organisers to understand the willingness of those attending to spend money, the underlying motivations of these people, and then to offer relevant methods of fundraising to cater for these differences. A common constraint cited by charity event organisers is that those attending dislike being bombarded by too many forms of fundraising on the night. Hence organisers must make a decision about the most appropriate methods to adopt.

When a significant auction or appeal is run at an event, the income raised often follows the ‘Pareto rule’. That is that 80% of the income raised comes from 20% of those present. This amounts to focusing a fundraising strategy on a small number of wealthy donors. For ticket only events with no supplementary fundraising, this income breakdown clearly does not pertain.

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[21] Klemperer (1999)
[22] See Section VI for more on the price of giving

Section V – Are fundraising events and efficient fundraising method?

How productive is a fundraising event?

The preceding analysis of the costs of an event and the income generated at an event can be put together so as to determine the productivity of an event. The productivity of an event is simple to calculate using the following formula:

$$\text{Productivity} = \frac{\text{total gross income}}{\text{total typical costs}}$$

The higher the ratio of gross income to costs, the higher the productivity of the event. With a measure for productivity we can begin to evaluate whether a fundraising event can be deemed to be efficient. Productivity in this context will be used to describe the short-term return on a fundraising investment or the direct return from one event. Longer-term productivity, possibly taking account of awareness, can be measured using life time value measures and cumulative returns to fundraising.

How does the cost of an event relate to the event's productivity?

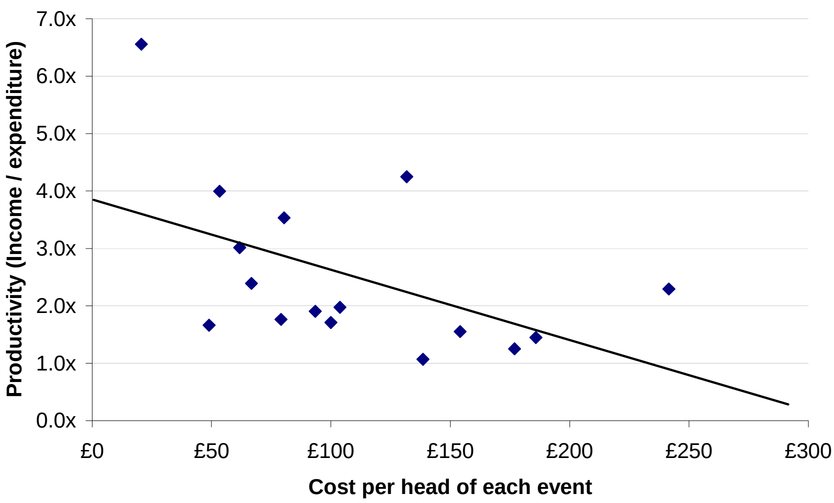
In the two examples that follow, the relationship between the cost of an event measured in terms of cost per head and the productivity of an event is analysed.

Productivity describes the direct return from one event.

Case study 1

Helping People is a charity that derives a significant proportion of its income from fundraising events.[23] It runs about 20 events a year ranging from an annual ball to specialist dinners and lunches. The smallest attract about 100 people, the largest nearly 1,000 people. The measure of cost per head can be used to compare how expensive different events are to put on. The success of each event will be measured in terms of its productivity – total income divided by total costs. Figure 3 shows the relationship between cost per head and productivity.

Figure 3 – Helping People

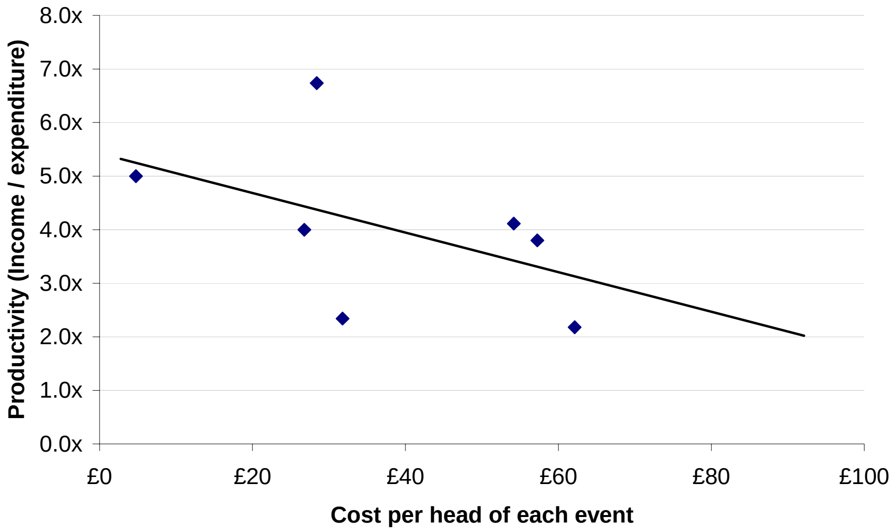


[23] Helping People is a fictional name charity but is based on real data

Case Study 2

Cancer Care is relatively new charity.[24] It provides care for those with cancer. It runs several large events per year as the primary method of raising funds. Event size ranges from 100 people to over 2,000 people.

Figure 4 – Cancer Care



A clear negative relationship can be seen between cost per head and productivity in the two examples above. That is, the more money that is spent per person at an event, the less productive the event becomes. This relationship suggests there may be unnecessary excessive expenditure for the more lavish events. It may also suggest that people attending lower cost events are more generous than those at higher cost events as the money they hand over to the charity has a larger philanthropic portion. Detailed data on events is difficult to collect and the above relationship should only be treated as indicative. Further research in this area is required especially since few charities interviewed were able to offer detailed analysis of the events they ran.

Case studies suggest the higher the cost per head of an event, the less productive the event becomes.

To begin to analyse the efficiency of fundraising events, we need to understand where fundraising events fit within the wider context of fundraising. Many different methods of fundraising are used and all have different productivities.

Fundraising matrix

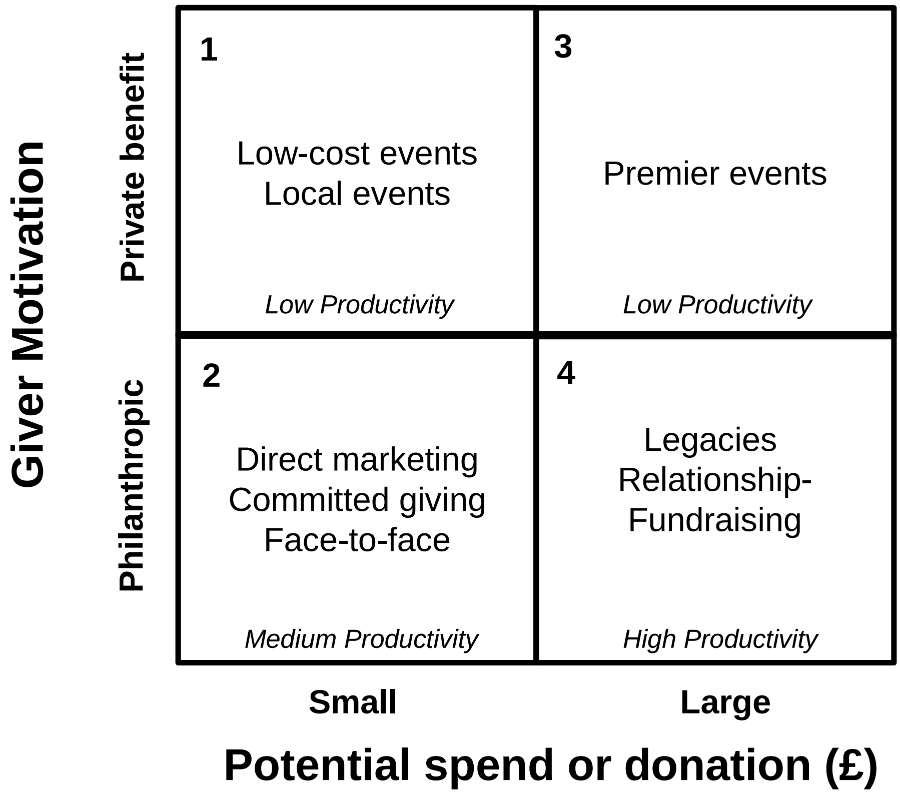
To understand the interaction between motivation for supporting a charity or event and the potential size of donation we have designed a matrix (Figure 5). The first dimension of the matrix captures the motivation to support a cause and is simplified to being either wholly philanthropic or having some private benefit. Obviously a mix of these motivations is common, but for simplicity the motivations are separated out to create a stylised tool for analysis.

The second dimension of the matrix attempts to capture the amount of money the potential donor is willing to give (albeit indirectly) in support of the cause. Small is used to describe supporters who may give up to a few hundred pounds to charity, by whatever means, in the course of a year. Large represent those giving significant financial support to a charity.

Recent research has been carried out analysing the productivity of different income streams of charities.[25] The major methods for raising money from individuals are listed in Table 4 below. According to Fundratios, these income streams make up over 85% of the total voluntary income to charities (Corporate, Trusts and other sources account for the remaining 15%).[26] Fundratios is currently the most detailed UK source of disaggregated voluntary

[24] Cancer Care is a fictional name charity but is based on real data
[25] Fundratios, Centre for Interfirm Comparison (2002), in association with the Institute of Fundraising
[26] Fundratios 2002 survey group of 38 charities is skewed towards the largest charities in the UK. Legacies account for 40% of total voluntary income in the Fundratios survey. Our own analysis of the

Figure 5 – Fundraising matrix



The fundraising matrix shows the interaction between the motivation for supporting a charity and the size of donation.

income data. As Table 4 shows, by far the most productive method of fundraising is legacies. Legacies are typically large donations made on the basis of a philanthropic motivation; the donor by definition can gain no private benefit from making the donation. Notably, the only method that is less productive than events is direct marketing.

The fundraising matrix allocates the different methods of fundraising briefly discussed above relative to the wealth of a potential supporter and the motivations of a supporter.

Table 4 – Productivity of different fundraising methods

Fundraising method	Income raised per pound spent
Legacies	43.3
Committed giving	3.7
Memberships	2.7
Local fundraising	2.3
Fundraising events	2.2
Direct marketing	2.0
Not from individuals	
Trusts	9.9
Corporate and trusts	4.7

Source: Fundratios

Events are one of the least productive techniques. Legacies are the most productive fundraising method.

Box 1 - *Low level financial support from someone interested in their own private benefit.*
The fact that these people are supporting a charity often comes secondary to any private enjoyment they gain. A potential supporter of this type will not respond to a direct mail shot or a face-to-face street-marketer as they are not that interested in the charity. Something else is needed to get them to part with money, which in this case is an event. At this level of support, the event will likely be local and small or a large concert since the cost per head of putting on these events is relatively low.

top 5,000 charities in the UK shows legacies to be under 20% of total voluntary income. Breaking this analysis down, the clear trend is that the larger the charity, the greater the proportion of voluntary income coming from legacies.

Box 2 - *Low level financial support from someone who believes in what the charity is trying to do (philanthropically motivated).*
This type of supporter responds well to cheap methods of fundraising such as direct marketing, committed giving and face to face contact that are overall more productive than fundraising events.

Box 3 - *High level financial support from someone who is interested in their own private benefit.*
As with Box 1, this person may be choosing to support the charity only as a secondary motivation. At this level, the quality of event will be high and the cost per head high to convince a participant that it is worth paying a large sum to attend. As suggested in Section V, it is possible that these events are of lower productivity than those in Box 1.

Box 4 - *High level financial support from someone who believes in what the charity is trying to do (philanthropically motivated).*
This is the ideal type of supporter who is both able and prepared to give significant amounts to the charity as they believe in the cause and what the charity is trying to achieve. Limited expensive marketing or extravagant events are necessary to convince this supporter to part with their money. These major supporters only require some personal attention from the charity. Furthermore these people are probably the most likely to leave a significant legacy. Given that personal contact is generally all that is needed to ensure these people continue to give the charity their considerable support, they are the least expensive group to service and therefore have the highest fundraising productivity.

The ideal supporter believes in the charity's cause and is the least expensive type of donor to service.

Putting all the boxes together produces a stylised fundraising matrix. The advantage of putting on an event is that it opens up a vast group of potential supporters for a charity, especially for those charities whose missions are very niche focused. The downside of events is that they are risky to put on and on average produce a lower return than most other fundraising methods.

The efficiency of a fundraising event

To evaluate the efficiency of a fundraising event we will adopt the commonly used economic measure of allocative efficiency.[27] Allocative efficiency in the context of fundraising simply asks that the resources available to a charity are spent so as to raise the maximum amount of income from a given amount of expenditure. Box 1 explains allocative efficiency in detail.

Fundraising events can be said to be an efficient means of fundraising if:

- ***The money spent on the event could not have been spent on an alternative fundraising method that would have raised more money***.

It must be realised that this does not mean that all resources have to be spent on fundraising events, just that the monies that are spent on an event could not otherwise be more productively used. As can be seen by the fundraising matrix, fundraising events may be efficient where the more productive methods targeting philanthropically motivated givers (the lower half of the matrix) have been exhausted. Therefore even though the evidence from Fundratios suggests fundraising events are amongst the least productive forms of fundraising, events within the right context can be an efficient fundraising technique.

Events can be an efficient fundraising technique where the methods targeting more philanthropic motivated givers have been exhausted.

This hypothesis was borne out to be true from the sample of charities and consultants who were interviewed and whose events were analysed. The charities that used events to raise large proportions of their income were those who operated either in niche areas, whose brand had little presence or who were in the start-up stage. They could not compete with the large household-name charities within their sector, so would use events to attract a group of supporters who gain something from going to the event aside from any purely philanthropic motivations towards the charity.

For the large household-name charity, events are commonly used to attract people who like to be seen to be involved in charitable activities, enjoy events and have no strong philanthropic link towards the cause. Events are the easiest method of attracting the support of this group. Charities involved in health and disability often have a more philanthropically motivated supporter base because of many of their supporters' direct involvement with the cause.

A unique group of fundraising charities are religious charities. Religious charities have a defined group of constituents – for example a Jewish charity can predominantly only raise

[27] For a more detailed discussion on allocative efficiency see a standard economics textbook such as Laidler and Estrin (1995)

As the spend on a fundraising technique increases, the productivity of the technique changes. A single fundraising ratio does not reflect this.

Box 1 Allocative efficiency

In the following example we will assume that every pound spent on fundraising events returns two pounds (average productivity of 2:1) and every pound spent on committed giving returns four pounds (average productivity of 4:1). Each charity has £100 to spend on fundraising and wishes to raise as much money as possible.

Example 1

Charity A Spends £50 on fundraising events raising £100 and £50 on committed giving raising £200 amounting to £300 raised in total.

Charity B Spends the full £100 on only a committed giving campaign raising £400 in total.

In this example Charity B has raised more money from fundraising than Charity A as it has allocated its resources – (the money it has to invest in fundraising) to the most productive method of fundraising. The problem with this example is that we have used average measures of fundraising productivity. We have assumed that committed giving will always raise 4:1. The problem with this assumption is that it implies that if the same charity spends £100 or £100,000 it will still raise funds at the same level of productivity. This seems very unlikely.

The concept we can use which explains why this is unlikely is marginal productivity. Marginal productivity says that for every extra pound spend on a fundraising method, how many additional pounds will be raised? Continuing with the example above, if Charity B has already spent £100 on committed giving fundraising and spends another £10 it will probably continue to raise money at the same rate as before, 4:1 and raise another £40. Yet if it had already spent £100,000 it is possible that most of the people who are likely to respond to committed giving have been targeted. Another £10 spend on the campaign at this point may only raise £15 – a rate of 1.5:1. The marginal productivity of committed giving has fallen. This is to be expected and is highlighted in example 2 below.

Example 2

Three charities each have £150,000 to spend on fundraising. Events still produce a return of 2:1. But for committed giving, after spending £100,000 each charity will have found virtually all supporters who are willing to give to the charity via committed giving methods. This first £100,000 will raise money at the rate of 4:1. Yet any additional money spent on a committed giving campaign above £100,000 will only return 1.5:1, as potential committed givers become much harder to find and more expensive to acquire.

Charity C Spends £150,000 on a committed giving campaign. The first £100,000 spent raises £400,000. The next £50,000 spent raises only £75,000. Total raised is £475,000.

Charity D Spends £75,000 on a committed giving campaign raising £300,000 and spends £75,000 on events raising £150,000. Total money raised is £450,000.

Charity E Spends £100,000 on a committed giving campaign raising £400,000. It then realises that it has tapped all its supporters who really care for its mission and knows it must now attract a broader range of supporters. It therefore spends £50,000 on events raising £100,000. Total money raised is £500,000.

Out of charities C, D and E, charity E raised the most money because it is the only charity of the three that allocated its resources efficiently. The key to charity E's fundraising success was the realisation that the high productivity of its committed giving campaign would eventually fall and it would require a new group of supporters. Furthermore, fundraising events are only an efficient means to fundraise under the strategy used by Charity E. In the case of charity D, it should spend less money on events and more money on committed giving. That is, reallocate £25,000 of resources from fundraising events to committed giving fundraising. To measure the longer term effects of different forms of fundraising the life time value method as discussed later in this section.

funds from Jewish people or a Sikh charity from Sikhs. Second the religious charities are the most mature sector and in each religious community the major potential supporters are generally known and tapped. Fundraising events for religious charities become a focal point for the year, a community event, and an excuse to write to supporters. The motivation for support is again more philanthropically motivated than most other events. This is reflected by the fact that many religious charity fundraising events rely on a private individual level appeal on the night as the only method of fundraising.

One criticism of the running of fundraising events which was heard consistently from both charities and consultants was lack of donor development. Many charities fail to develop the people that attend events into more productive donors and do not take the opportunity at the event to engage them further with the charity.

Donor development

On average for fundraising events, the life-time of a supporter is much shorter than for other methods of giving.

Donor development seeks to achieve two goals. The first is to raise over the medium term more money from a supporter, often measured in terms of life-time value (LTV).[28] The second is to raise money from a supporter more productively than through fundraising events.

The typical life-time for a monthly committed giver is eight years.[29] On average for fundraising events, the life-time of a supporter is much shorter. People generally participate in adventure and endurance events as a one-off for the challenge and excitement. For events such as balls, lunches and dinners, the list of those attending contains the friends and contacts of the volunteer lay-person committee organising the event. The expected life-time of these donors is usually the time the contact who invited them remains on the committee. The determinants change for those attending an event through business contacts or through religious connections.

Donor productivity can be increased by transforming a low productivity privately motivated donor into a more philanthropically motivated, higher productivity donor. Using the fundraising matrix, this amounts to shifting low productivity privately motivated supporters (the top two boxes) to higher productivity philanthropically motivated supporters (the bottom two boxes). One technique that can be used to make this transition is for the charity to engage and interest the donor in the cause it is pursuing. This may either be done at the event, though this is often difficult, or by a donor development team after the event.

Donor productivity can be increased by transforming a low productivity privately motivated donor into a more philanthropically motivated, higher productivity donor.

The awareness generated from an event is often mentioned as another method to develop donors or acquire new donors. For the large household-name charities, extravagant, fundraising events provide publicity in the national press. This attracts the attention of (potential) supporters from all backgrounds and may induce increased future donations. The size and scope of this effect is very hard to measure. Few charities will run an event that breaks even but serves solely to "raise awareness". Raising awareness is now seen at most as a by-product of a fundraising event whose primary aim by definition is to raise as much money as possible. As discussed earlier, further research on the understanding of awareness as an objective would be welcomed.

Acquiring donors is by its nature much more expensive than the retention and development of donors.[30] Fundraising events can serve as a useful tool for donor acquisition. Once this person is at the event it is possible to interest them further and attempt to develop them as a future donor. Trekking events for example are known to help create strong bonds with the charity.

A special group targeted for acquisition and development, and the only group of supporters for whom charities are generally prepared to run breakeven events for, are those that attract young supporters, particularly those in their twenties. Young people often have low disposable income, but may turn into much larger more productive supporters when they are older. The expected lifetime value profile is low in the early years and high in the later years but again there is no known published evidence that this is the case.

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[28] Sargeant (2001). LTV is often associated with a person who signs up to a committed giving plan, usually to donate a set amount per month and therefore the number of years that they stay on the plan defines how much money they donate in total. This method requires an initial investment to get someone to commit to giving which will on average be greater than the amount donated in the first one or two years but will be exceeded by the total LTV and is therefore worthwhile
[29] Masters (2000)
[30] Sargeant and Kahler (1998)

Box 2 Fundraising events within the life cycle of a charity

In the early stages of a charity's life, fundraising events can play a significant role. A charity will have a small philanthropically motivated donor base and a weak brand. A fundraising event instantly allows the charity to target those who may not be interested in its cause but will enable it to raise income to further its cause.

As the charity grows and begins to fill a niche, it will be able to target more productive methods of fundraising such as trusts and companies who may not wish to get involved in the early, risky stages of growth. Once a charity has become more established, awareness from fundraising events increases in relevance and importance. This is especially true if the charity wishes to maintain its celebrity appeal or position as a "fashionable" charity to support.

Finally, when philanthropic donor bases and techniques have either been tapped or possibly exhausted, fundraising events again provide the charity with the opportunity to branch out and raise money from a broader group of people.

Summary – The efficiency of fundraising events

Events can be an efficient part of many charities' fundraising strategies by attracting support from those who are little concerned with the specific charitable cause.

Fundraising events can fit into a fundraising strategy to target a broader group of people outside of the charity's core philanthropically motivated base. If other more productive measures of fundraising have been exhausted or are inappropriate then fundraising events can be an efficient way to raise money. The evidence from the charities sampled and from other work done on fundraising productivity is that though fundraising events are one of the least productive methods for raising money, they can be an efficient part of many charities' fundraising strategies by attracting support from those who are little concerned with the specific charitable cause.

Section VI – Current legislation and accounting practices

Current concerns

> "In the Government's view, easy access to accurate and relevant information about charities is essential for real accountability, and for trust and confidence in charities."
>
> *Charities and Not-for-profits: A Modern Legal Framework; Home Office, July 2003*

> "The costs of fund-raising are a legitimate matter of public interest. Trustees should ensure that these costs are shown properly in the accounts."
>
> *Charities and Fundraising; Charity Commission, July 2002*

Easy access to accurate and relevant information about charities is essential for real accountability, and for trust and confidence in charities.

Fundraising expenditure is the key income driver for charities that rely on significant voluntary income. Of great documented concern to donors is how many pence out of every pound go on direct charitable expenditure and how much charities spend on fundraising and administration. Research shows the price of giving (the proportion of a donation spent on direct charitable expenditure) is significant in a donor's decision to give to charity and therefore important for donors to be able to compare the price of giving across different charities.[31]

Current charity legislation allows for several different ways of accounting for fundraising expenditure.

Current charity legislation allows for several different ways of accounting for fundraising expenditure (including that of events) and thus makes comparisons between charities difficult. Not only does this complicate the decision of the donor but it makes best practices and benchmarking tough to replicate across the charitable sector.[32]

Fundraising events legislation

Fundraising events encompass both events of a fundraising nature and those seeking to raise the profile of charity. The Charity Commission is cautious about charities running fundraising events. Primarily, the Commission is concerned that the use of a charity's assets which have been designated for charitable purposes may be exposed to any serious risk of loss from a fundraising event. The Commission further states that risks which may be acceptable in the commercial world may be too risky for the charitable sector. For large scale events (defined below), the Commission advises that the event be conducted through a trading company rather than the charity itself, so that the charity is protected from risk of loss.

The Commission produces a separate pamphlet (CC35) providing guidance on charitable trading, including fundraising events, and suggests when a separate trading company should be established to carry out these activities. Charities who wish to run more substantial fundraising events may separate off their trading activities to subsidiary non-charitable trading companies. They can still take advantage of tax exemption by "covenanting" the net profits from the trading company back to the charity. This donation will not be regarded as trading income but as a donation so that it will be exempted from tax.[33]

Charities may separate off their trading activities, including events, to subsidiary non-charitable trading companies.

> "If fund-raising is the main or sole aim of such trading activities (rather than primary purpose trading which also happens to produce an income) this is called 'non-primary purpose trading'. Charity law does not permit charities to carry out non-primary purpose trading on a substantial basis in order to raise additional funds."
>
> *Charities and Trading; Charity Commission, July 2001*

[31] Webber (2002); Khanna and Sandler (2000); Okten and Weisbrod (2000)
More accurately, the price of giving is defined as the cost to a donor of purchasing one pound's worth of a charity's output. Therefore the price of giving depends on any tax relief that the donor receives from giving money such as Gift Aid and the amount the charity spends on items other than direct charitable expenditure such as fundraising and administration
[32] Saxton (2002)
[33] Trading by Charities, Inland Revenue (2001)

This statement rests on the assumption that donors expect the money they give to a charity to be used on direct charitable outputs or invested prudently – they do not wish to see their donation spent on risky activities such as fundraising. The guidelines on total permitted trading are shown in Table 5. The maximum allowable internal trading for a charity is relatively small, especially since the upper band of £50,000 is meant to cater for the largest UK charities.

Table 5: Permitted charity trading

Total income of charity	Total permitted trading run directly by a charity in a particular tax year
Under £20,000	£5,000
£20,000 to £200,000	25% of charity's total incoming resources
Over £200,000	£50,000

The decision as to whether a trading company is required to run an event rests on the premise that the activity is risky. If large sums must be initially invested and can only be recouped through ticket sales or sales at the event itself, then the event can fairly be defined as being risky. But in many instances, the major costs of the event are either underwritten by a third party, paid for by a generous benefactor, sponsored by a company or paid for after the event. Within this context, the risks to the charity are negligible, no money from the charity's accounts is being spent on the event and for the purposes of risk aversion, a charitable trading company is not necessary.

Crucially, it should be noted that even if an event has negligible risks, a charity can still choose to run the event through a separate trading company. A charity is perfectly entitled to do this if it does not want to report its activities in fundraising events (or trading) directly.

Treatment of event income

Even if an event has negligible risks, a charity can still choose to run the event through a separate trading company.

One of the difficulties in accounting for event income lies in the treatment of the income paid by those attending. A donation may not be Gift Aided (exempt from tax) if the donor receives any tangible private benefit. Attending a gala ball, dinner or concert for example, provides the donor with such a benefit. If the charity wishes to sell tickets to the event, these tickets cannot be treated as donations but must be treated as non-tax exempt trading income. Yet if the event is paid for by a third party, then admittance to the event can be provided for free and an appeal for donations can be made at the event. A further option is to break the ticket price down into a pre-agreed cost of the event, not tax-exempt, allowing the remainder to be treated as a donation. Such agreements do not necessarily need to be prearranged with the Inland Revenue if Gift Aid forms are signed. Regardless of whether a sponsor or benefactor covers the cost of the event, the income received that covers the costs cannot be tax-exempted.

For auction items whose market value can be estimated, it is possible to arrange with the Inland Revenue that any amount bid over and above this value can be Gift Aided. The difficulty with this method is that unique items, such as celebrity memorabilia, have no discernible market value and hence cannot be sold in a tax efficient manner.

Event accounting

The difficulties that can arise are best highlighted with the following example. In the example below the activities of charities X and Y are identical. The charities only differ in the way they account for these activities. Charity X runs all its activities through the charity whereas Charity Y runs its fundraising events through a third party unrelated to the charity. Aside from running fundraising events, both charities also spend £50,000 on other fundraising methods raising £100,000 of donations.

There are some benefits to Charity X's methods as it records a higher total income than Charity Y. This can be useful for the purposes of league tables, or grant applications dependent on the size of a charity. Overall though, Charity Y is likely to be able to raise more funds than Charity X, as it will be able to advertise a higher fundraising productivity.

Charity X spends £50,000 on events raising £100,000 through ticket sales. If the fundraising event is run through the charity accounts, then the costs should be accounted for under the line item trading activities within the section cost of generating funds, as shown in Figure 6. The income from the event must be included as trading income. Charity Y on the other hand

Use of third parties unrelated to the charity enable charities to advertise a more productive fundraising ratio than if the event was run directly through the charity.

uses a third party. It runs a similar event which costs £50,000 to stage and raises £100,000 through ticket income. The net profit the third party donates is £50,000. This can then be covenanted to the charity accounts to avoid any company taxes and is included as donation income. No income from the event is recorded under either the trading income or trading expenditure lines.

The net resources available for charitable expenditure for both charities is £100,000. Yet Charity Y may be able to solicit greater donations (and possibly other income) in the future as it will be able to advertise legitimately a more productive fundraising ratio of 3:1, significantly higher than Charity X's 2:1. This seems unfair since both charities are carrying out identical operations. What Charity Y is doing is perfectly legal and giving it an advantage over Charity X.

In answer to the calls for clarity and consistency in the accounting of fundraising activities, charities should be obliged to report any third party related fundraising activities in the report and accounts.

Figure 6: Accounting for events

	Charity X *(£000s)* *Direct through charity*	Charity Y *(£000s)* *Use of a third party*
Income		
Donations	100	150
Trading Activities	100	-
Cost of Generating Funds (CoG)		
Fundraising	50	50
Trading Activities	50	-
Net resources available for charitable expenditure	100	100
Income : CoG *(ratio)*	*2:1*	*3:1*

Policy recommendations

In deciding how best to account for fundraising events, several concerns arise. The Strategy Unit report called for clarity in the reporting of fundraising activities, consistency in the accounting practices and a lighter administrative burden on the charity. In response to these issues, we agree with the Strategy Unit recommendation that calls for an amending of charity law to allow charities to undertake all trading activities within the charity without the need for a separate trading company.

Charities should be given the option to trade for the purposes of fundraising either directly through the charity or via a trading subsidiary.

The concern with this recommendation is that it may increase the risk profile of the charity. The Strategy Unit duly qualifies its trading recommendation by adding that the powers to undertake such trading must be subject to a "specific statutory duty of care." The Charity Law Association (CLA) believes that the definition of a trustee's duty of care as laid out in the Trustee Act 2000 is a reasonable start but it requires further refinement, specifically on the issue of risk.[34] Extra resources should be focused within charities to analyse their levels of risks and this should be the responsibility of the trustee. Yet the CLA goes on to say that given that trustees have responsibility over the charity's assets and the general running of the charity, it seems reasonable to allow them to be the judge of the trading activities of the charity as well. It is also important that charities obtain professional tax advice on their trading and fundraising activities to mitigate the risk of any avoidable tax liabilities.

The Government, in its recent response to the Strategy Unit Report has decided not to accept this recommendation on the grounds that allowing charities to trade directly would provide an unfair advantage against the commercial sector due to the tax exempt structure of charities.[35] For small charities, the Government defends its decision by re-iterating the current provisions for small trades, as covered in Table 5 above. In contrast to the Government's decision, we continue to believe that charities should be allowed the

[34] Charity Law Association (2002)
[35] Home Office (2003)

operational choice to trade directly through the charity for the purposes of fundraising and if the risks on charitable assets are deemed too high, to retain the option to use trading subsidiaries. As the charitable sector continues to develop replicable best practices, it is desirable to give charities as much operational flexibility as possible, constrained by the associated risks of such freedoms.

One further difficulty with current accounting practices is that fundraising is reported as a year on year activity and therefore events are listed as one-off activities. For many forms of fundraising, the initial investment recorded in the first year is high but there are good returns in subsequent years. Yet within the current Charity Statement of Recommended Practice (SORP), because of the yearly focus, these activities will be reported as being less productive. Fundraising events aimed at raising awareness with a view to attracting future donations face this problem. If awareness raised by a fundraising event is likely to solicit increased donations after the event, charities should use the opportunity to explain this within their Trustee's Report, rather than leaving an unexplained set of misleading figures in their accounts. The current SORP recommends the use of the Trustee Report to explain their activities further, but this opportunity is often overlooked by many charities.

Summary of recommendations:

- Allow charities to undertake all trading within the charity, including trading for the purpose of fundraising, under a clearly defined duty of care.

- For activities which the trustees deem to be very risky, a separate trading subsidiary can still be set up, and the activities of the trading subsidiary should be recorded on a consolidated basis, as required by the latest SORP.

- Further written information on the fundraising activities of the charity and any related parties or subsidiaries should be included in the notes to the accounts.

- If charities wish to justify generating awareness as an objective, they should make use of their Trustee's Report to explain their fundraising activities as part of a longer term strategy, rather than the current one-off yearly snapshot that figures alone provide.

Fundraising events can be an efficient method to raise income from sources that other methods cannot tap.

Section VII - Conclusions

Set within the correct fundraising strategy, fundraising events can be an efficient method to raise income by allowing a broader supporter base to be targeted. These broader supporter bases are in part privately motivated and supporting the charity is not always their principal motivation.

Many charities run events citing raising awareness as a significant objective in addition to the raising of funds directly from the event. Yet there is no known evidence that awareness created from events raises future income. We recommend that charities should begin to track their donors more effectively to understand whether awareness generated by events does increase future income. We also recommend that if awareness generated by events does raise future income, the reporting of fundraising activities such as events should be changed so as to show these longer term implications.

Fundraising productivities should be fairly comparable between charities but the current fundraising legislation which allows for a variety of methods to account for fundraising activities severely limits the value of any comparative figures. In contrast to the Government's recent decision to continue not to allow charities to trade directly, we believe that trading activities for the purposes of fundraising should be conducted within the charity. To enable operational flexibility, if the charity trustees deem the activities to be very risky, use of a trading subsidiary should still be allowed.

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