Hospice accounts

Analysis of the accounts of UK charitable hospices for the year ended 31 March 2016

Prepared in 2017 by Hospice UK
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Introduction

haysmacintyre is pleased to partner with Hospice UK for the third year in producing the Hospice Accounts Report. This year’s report uses information taken from the statutory accounts of 194 independent charitable hospices in the UK, plus two national charities, Marie Curie and Sue Ryder. It shows a sector with total income of £1.4 billion per year.

This report covers the first year that most hospices have adopted the new accounting guidance: Charities Statement of Recommended Practice (SORP). This has meant new disclosures, such as the costs of key management personnel, as well as new terminology and the reallocation of expenditure categories. Overall, this change has been managed well by hospices and we have noted a number who have also taken the opportunity to refresh their report and accounts to better tell the story of the hospice to its supporters.

Every year in the UK, hospices provide vital care to over 200,000 people with terminal or life-limiting illnesses, as well as providing support for many of their loved ones. Hospice care is free for everyone, and is provided for however long it is needed, which could be days, weeks or even months.

This care is funded by a range of types of income, with 73% coming from local community fundraising, donations, legacies, corporate supporters and trading activities. This level of local community support is vital to the sector.

Government funding differs greatly by area and by individual hospice. Some have agreements in place for multi-year funding, but many are reliant on year by year decisions on funding levels. There is also a significant difference in government funding levels for adults and children’s hospices. In 2016, the government funded 32% of the expenditure incurred by adult hospices in the UK, and 15% of the expenditure incurred by children’s hospices.

Over the years, the findings from the Hospice Accounts Report have been quoted in Parliament, the media and numerous publications and presentations. We hope that you find it useful, both to inform debate and to help local hospice staff and trustee boards to benchmark their own figures against similar organisations.

Anna Bennett
Charities Partner
haysmacintyre
020 7969 5542
abennett@haysmacintyre.com

haysmacintyre’s award winning Charities team is one of the largest in the country and we are auditor to more of the top 5,000 charities than any other UK Accountancy firm. We support and advise many local hospices and we have wide experience of their businesses and the risks and challenges that they face. We are very proud to have been ranked for 10 years in the top five for ‘Charity Expertise’ in the Charity Finance audit survey. We were awarded Audit Team of the Year at the British Accountancy Awards 2017.
Definitions and scope of report

This report brings together the accounts of charitable hospices in the UK. These hospices are primarily local charities that are governed by voluntary trustees.

The purpose of the report is to:

- demonstrate the size and operation of hospice care in the UK
- identify and highlight changes over time in the overall operation of these hospices
- identify differences between the various sizes of hospice
- provide hospices with critical figures and benchmarks against which to compare their own accounts.

Scope

This report is based upon the audited accounts of 196 charitable hospices for the financial year ending any time between 1 April 2015 and 31 March 2016. For the majority of hospices, this means the accounts for the year ended 31 March 2016. This was the first year in which most of these hospices prepared their financial statements under the Charities Statement of Recommended Practice (SORP) FRS 102.

Figure 1 on page 4 includes the income and expenditure related to hospice care of two large national charities – Marie Curie and Sue Ryder – as identified in their audited accounts. Because these two charities are very different in scale to the other charities, their results have been excluded from all the other tables. When a chart in the report refers to independent hospices, this means the results of Marie Curie and Sue Ryder are excluded from those figures.

Preparation

The figures are drawn from the Statement of Financial Activities (SOFA), Balance Sheet and Notes included in published, audited financial statements. As far as possible, we have taken information at face value, but we have had to interpret data in some cases where clear information was not given. Where data was not provided in published accounts, we have had to omit it from our calculations.

There are changes in the number of hospices submitting accounts each year; where appropriate, figures from previous years have been amended to ensure like for like comparisons.

Children’s and joint services

In some analysis, we have split the figures for children’s and adults’ hospices. This has been done where there are significantly different results in the accounts of children’s hospices. In total, there are 25 standalone children’s hospices included in this report. There are also 13 joint hospices, serving both adults and children. It has not been possible to split the accounts of the joint hospices into their two components, so they have been included as adults’ hospices, as this part of their services accounts for a majority of their income and expenditure. Such hospices are treated as a single entity for the purpose of this report, as are hospices that are run by one charity but based in more than one location.
Definitions used in this report

- In the published accounts of a hospice, trading income and expenditure are respectively included in gross income and gross expenditure. In some figures in this report, we have excluded trading income and expenditure from both these figures and included trading profit within gross income. Whether trading income and expenditure has been included in the analysis is stated above each relevant figure. This makes no difference to the surplus or deficit, but serves to make for better comparisons. Income includes money raised for capital projects, but expenditure excludes capital payments such as building costs.

- Fundraised income includes donations and legacies, grants from charitable trusts, shops, lotteries and other fundraising activities. It also includes money given for capital projects.

- Unrestricted reserves include designated funds.

- Available reserves is taken to mean unrestricted reserves less unrestricted tangible fixed assets.

- Tangible assets are made up of the cost price of the building (or valuation if the hospice has revalued the building in their statutory accounts) and equipment less depreciation.

- Investment gains/losses include both realised and unrealised changes in the value of investments.

- Other gains/losses represent gains and losses on defined benefit pensions schemes and the revaluation of properties.
## Overall summary

### Figure 1 – Key figures (including activities of national charities relating to hospice care)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fundraised income including income from shops, lotteries and trading</strong></td>
<td>£1,017</td>
<td>£993</td>
<td>£950</td>
<td>£869</td>
</tr>
<tr>
<td><strong>Government income</strong></td>
<td>£333</td>
<td>£327</td>
<td>£345</td>
<td>£310</td>
</tr>
<tr>
<td><strong>Investment income</strong></td>
<td>£22</td>
<td>£21</td>
<td>£22</td>
<td>£23</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>£27</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>£1,399</td>
<td>£1,341</td>
<td>£1,317</td>
<td>£1,202</td>
</tr>
</tbody>
</table>

| **Charity expenditure**        | £914   | £868   | £831   | £779   |
| **Cost of raising funds including cost of shops, lotteries and trading** | £461   | £432   | £403   | £361   |
| **Governance**                 | N/A    | £12    | £12    | £11    |
| **Total expenditure including retail** | £1,375 | £1,312 | £1,246 | £1,151 |

| **Surplus/(deficit)**          | £24    | £29    | £71    | £51    |
| **Total investment gains/(losses) and other movement** | (£9)   | £37    | £26    | £52    |
| **Total movement in funds**    | £15    | £66    | £97    | £103   |

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total income less shops and lottery expenditure</strong></td>
<td>£1,123</td>
<td>£1,077</td>
<td>£1,076</td>
<td>£987</td>
</tr>
<tr>
<td><strong>Total expenditure excluding shops and lottery expenditure</strong></td>
<td>£1,100</td>
<td>£1,043</td>
<td>£998</td>
<td>£929</td>
</tr>
</tbody>
</table>
Figure 1 shows the total size of the charitable hospice movement in the UK, including the amounts relating to hospice care from two national charities – Marie Curie and Sue Ryder. The figures would be even greater if the value of the substantial role of unpaid volunteers were included.

Due to changes in the way charity accounts are presented, with the introductions of the Charities SORP FRS 102, the figures have been presented slightly differently in 2016.

Total income for independent charitable hospices has increased by 4% compared to the prior year. Most of this growth is as a result of an increase in fundraised income. For the first time, fundraised income raised by UK hospices now exceeds £1 billion per year.

Government funding rose by almost 2% compared to 2015. In 2014, there was a peak in government funding in England due to a capital programme sponsored by NHS England.

Expenditure has grown by 5% compared to the prior year and now stands at £1.4 billion, of which £914 million is spent on charitable activities (ie care). Hospices’ expenditure continues to grow at a greater rate than their income.

Removing trading activities from the figures to focus on the core activities of the hospice, total income is £1.12 billion, only slightly greater than total expenditure of £1.1 billion.

In 2016, the hospice sector overall generated a surplus on its core activities of £15 million. These surpluses allow hospices to expand their services and fund new buildings (such investments would be shown as capital spend and therefore not included in the expenditure figures on the previous page).
Hospice sizes 2016

Throughout this report, hospices are grouped by size of expenditure. Different sized hospices have different trends so it often proves more useful to compare hospices of the same size, rather than those in the same region or similar locations. The bandings are based on 2016 total expenditure, which means that some hospices will have moved between bands since the last report.

**Figure 2 – Proportion of hospices in each expenditure band and the proportion of expenditure attributable to hospices in each expenditure band (including shops, lotteries and other trading expenditure)**

### Key findings

- Average total expenditure (including trading expenditure) per hospice in each size band is shown above.

- The size of hospices varies throughout the UK, from St Christopher’s Hospice with £19 million expenditure to those hospices with an annual expenditure under £1 million. Our smallest hospice has annual expenditure of just under £200k.

<table>
<thead>
<tr>
<th></th>
<th>Under £2M</th>
<th>Over £2M, Under £5M</th>
<th>Over £5M, Under £8M</th>
<th>Over £8M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average total expenditure</strong></td>
<td>£986,000</td>
<td>£3,667,000</td>
<td>£6,363,000</td>
<td>£10,943,000</td>
</tr>
</tbody>
</table>
Total income in 2016, including profits from trading activities, for independent hospices was £1,123 million.

Figure 3 – Income type as a percentage of total income (comparison of adults’ and children’s hospices)

Key findings

- Children’s hospices are funded very differently from adults’ hospices, with far greater reliance on donations and fundraising (which contribute over 50% of their total income) and less government funding.

- Government funding as a percentage of total income for children’s hospices is much lower than for adults’ hospices at 15% on average compared to 29% for adults.

- Historically children’s hospices received much less funding than adults’ hospices from legacies, but in recent years the amounts have become much more comparable.

- Adults’ hospices appear to have more developed and profitable trading operations than children’s hospices.
The graph below shows the difference in types of funding for adults' hospices of different sizes, including profits from trading activities.

**Figure 4 – Income type as a percentage of total income (comparison by size of adults' hospices)**

**Key findings**

- Government funding comprises a much smaller proportion of total income for the smallest hospices than it does for other hospices.

- In contrast, donations from the public are a far more significant source of income for the smallest hospices. This suggests that smaller hospices are most vulnerable to any changes in charitable giving by the public.

- Overall government income is stable as a percentage of total income, although this is not true for each individual hospice. The position is made more unstable by the renegotiation of government income year on year.

- Hospices are exploring a range of new income generating activities, diversifying to include catering, care services, education and training and other trading.
Government funding

Hospices in different nations are funded differently, as are hospices for children and hospices for adults.

In analysing government funding, we have split hospices by nation as well as into adults’ and children’s hospices. We have excluded the cost of trading activities from expenditure.

**Figure 5 – Government funding as a percentage of expenditure by nation (comparison by year)**

![Bar chart showing government funding as a percentage of expenditure by nation and year.](chart)
Government funding  (continued)

The graph below shows government funding as a percentage of expenditure for all independent adults’ hospices, with each line representing a different hospice. Expenditure on shops and lotteries is excluded from the calculations.

**Figure 6 – Government funding as a percentage of expenditure (adults’ hospices)**

![Graph showing government funding as a percentage of expenditure for adult hospices.]

**Key findings**

- In total, the government funded 32% of the expenditure incurred by adults’ hospices in the UK, although the amount received by each hospice varies significantly.

- Several hospices receive less than 20% funding from government sources while at the other extreme 15 received more than 50% funding.

- There is no obvious cluster of results around the average, showing the inequitable funding for hospices throughout the country.
**Key findings**

- In total, the government funded 32% of the expenditure incurred by adults’ hospices in England.
- In 2014, there was a peak in funding due to a capital programme sponsored by NHS England. Outside of this, the proportion of expenditure funded by the government has been consistent over the past few years at around one-third of expenditure.

- However, there is great divergence in the proportion of funding received by different hospices. Larger hospices tend to receive proportionally more government funding than the smallest hospices (on average 32% compared to 21% in 2016).
**Key findings**

- In total, the government funded 27% of the expenditure incurred by adults’ hospices in Wales.

- There is significant variation between the funding levels of different hospices, from 0% up to 42%.

- Overall, hospices in Wales receive less government funding as a proportion of expenditure than those in England and Scotland – however this is partly as a result of a different funding system, with more costs being borne directly by the NHS so it is not possible to make direct comparisons.
Key findings

- In total, the government funded 37% of the expenditure incurred by adults’ hospices in Northern Ireland.
- However, there are only three independent, charitable adults’ hospices in Northern Ireland, and as can be seen from the above graph there are significant variations in funding between them.
**Government funding – Scotland**

The graph below shows government funding as a percentage of expenditure (excluding trading activities) for Scottish adults' hospices, with each line representing a different hospice.

**Figure 10 – Government Funding as a percentage of expenditure in Scotland**

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**Key findings**

- In total, the government funded 39% of the expenditure incurred by adults' hospices in Scotland.

- Government funding for hospices in Scotland is typically higher than in other parts of the UK, although there remains significant variation between individual hospices.
Key findings

• Most children’s hospices are located in England, and on average, government funding in 2016 amounted to 15% of expenditure for a children’s hospice (these figures are for hospices which only care for children, and exclude those who care for both children and adults).

• The variation between hospices is similar to that of adults, ranging from virtually nothing to just under 30%.

• Children’s hospices receive significantly less funding as a proportion of their total expenditure than adults’ hospices.

Government funding – children’s hospices (all nations)

The graph below shows government funding as a percentage of expenditure (excluding trading activities) for UK children’s hospices, with each line representing a different hospice.

Figure 11 – Government funding as a percentage of expenditure (children’s hospices)
Expenditure

Figure 12 – Breakdown of total expenditure (including Trading) for all independent hospices

Key findings

- Hospices spend more than two-thirds of their total expenditure on charitable activities.
- 17% of total hospice spend is on retail activities, 12% of fundraising activities and 2% on lotteries.
- There are no clear differences in how hospices spend their funds based on the respective size of the hospices.
Cost of raising funds

The graph below shows the fundraising ratio of hospices. This is calculated by dividing expenditure on fundraising (excluding shop and lottery costs) by fundraised income raised (comprising donations, legacies grants and income from fundraising activities). Income and costs relating to shops and lotteries are excluded from the calculation.

Figure 13 – Cost of raising funds as a percentage of total fundraised income excluding shops and lotteries (adults’ hospices)

Key findings

- On average, adults’ hospices had a fundraising ratio of 24%. In other words, every £1 spent on fundraising and publicity generates £4 of income.
- The data doesn’t show any significant differences in fundraising ratios based on the size of the hospice.
- Historically, larger hospices have tended to have lower fundraising ratios. These have increased in 2016 largely due to support costs being more consistently allocated to costs of raising funds on adoption of SORP 2015.
We have used information available in the hospices’ published, consolidated accounts to analyse the profitability of shop activities. In some cases, hospices have not separately disclosed their expenditure on shops in their accounts – in such cases their results have been excluded from the graph below.

We have calculated profitability as profit divided by income.

**Key findings**

- The average profitability in 2016 was 24%, down 4% on the prior year, which continues a pattern of falling shop profits year-on-year.
- Hospices derive on average 7% of their income from shop profits. Total profits reported by hospice shops were £62 million.
- However, 14 hospices reported that their shops made a loss in 2016.
Lotteries

We have used information available in the hospices’ published, consolidated accounts to analyse the profitability of lottery activities. In some cases, hospices have not separately disclosed their expenditure on lotteries in their accounts – in such cases their results have been excluded from the table below.

We have calculated profitability as profit divided by income.

**Figure 15 – Lottery profit as a percentage of lottery income**

![Graph showing lottery profit as a percentage of lottery income]

**Key findings**

- The average profitability of a hospice lottery was 51% (unchanged from last year), and the average profit per hospice is £316k.
- There is greater consistency in profitability among lotteries than shops.
- Four hospices made a profit of over £1 million on their lottery activities.
- The total reported lottery income was £68 million in 2016. Given an average contribution of £1 per person per week, this suggests that over one million people are playing hospice lotteries in the UK each week.
Staff costs

In common with many charities, staff costs make up a majority of the expenditure within hospices. The graph below shows staff costs (including salaries, national insurance and pensions) as a percentage of total expenditure (including shops and lotteries).

Figure 16 – Staff costs as a proportion of total expenditure

Key findings

• Staff costs represent 68% of a hospice’s total expenditure, on average.

• Staff costs constitute a lower percentage of the expenditure of smaller hospices than larger hospices, but the differences are not significant.

• The value of volunteer time is not shown in the financial statements and therefore is also excluded from these figures. Volunteer time is a major contribution to the activities of hospices.
Key management personnel

Under the new Charities SORP 2015, charities have to disclose the cost of their ‘key management personnel.’

The average cost of key management personnel disclosed by hospices is £357,718, and the average number of staff included in this figure is 5.6.

Many hospices have not disclosed the number of their key management personnel, which means the above figures are not based on information from all hospices.

High paid staff

All charities have also been required for many years to disclose the number of staff they employ who received emoluments (excluding pension contributions) of over £60k.

In total, the hospice sector employs 499 staff who are defined as highly paid (earning over £60k), which works out at an average of 2.5 per hospice.

Of those, 218 were paid between £60k-£70k; 227 were paid between £70k-£100k and 61 were paid over £100k.

Hospices are likely to employ more staff on high salaries than the average charity, as many will directly employ highly skilled medical staff, and will be required to offer salaries at a similar level to the NHS market. The highest paid member of staff is often not the chief executive.
Available reserves are defined in this report as unrestricted reserves, including designated funds, less unrestricted tangible fixed assets. Available reserves are held by hospices for a number of reasons:

- Hospices rely on voluntary donations and fundraising for on average two-thirds of their income, and most have to renegotiate their NHS funding every year. Hospices must hold sufficient free reserves to enable the hospice to continue to provide its essential services if income levels were to fall;
- To fund future capital projects, such as building or refurbishment work;
- To contribute to general expenditure in times of growth or change, to respond quickly to new demands and take on innovative projects.

It is the responsibility of the trustees to balance the above considerations and determine how much a charity should hold in reserves. In the graphs below, the value of available reserves is compared to each hospice’s annual total expenditure (including trading activities).

Figure 17 – Available reserves as months of expenditure (independent adults’ hospices)
Available reserves (continued)

Figure 18 – Average available reserves as months of expenditure by expenditure banding (adults’ hospices)

Key findings

- Adults’ hospices hold the equivalent of eight months of expenditure in available reserves, on average.
- The range is third, with a quarter of hospices holding less than six months of expenditure in available reserves.
- There are 10 adults’ hospices with negative available reserves, which means that they are using the value of their fixed assets to enable them to remain solvent.
- At the other end of the scale, nine hospices have available reserves of more than two years expenditure. It may be that these hospices are saving funds for a new building or other major capital project.
- Overall, there is a clear trend of hospices holding less reserves than in previous years, which probably reflects the challenging economic climate.
Key findings

- On average, children’s hospices hold available reserves representing 13.5 months expenditure. This is higher than adults’ hospices, which may reflect the differences in sources of funding noted in Figure 3 – Income type as a percentage of total income.

- Once again, there is a significant variation in reserves, with one hospice holding negative reserves and three holding more than four years reserves.
Deficits and falling reserves

The graph below shows details of hospices that experienced losses during the year. Losses can be defined either before or after taking into account changes in the value of investment. Losses may be budgeted or may be a result of falls in income, or unforeseen expenditure.

**Figure 20 – Surplus/(deficit) on total expenditure**

The first measure is of how many hospices spent more than they received. By this measure, 44% recorded deficits in 2016.

**Figure 21 – Movement in total reserves including investments**

The second measure is movement in reserves held by hospices, which is affected by any changes to investment values or property revaluations as well as income and expenditure in the year. By this measure, just under half (48%) of hospices suffered negative movements in reserves in 2016.
The graph below shows the total number of months of expenditure (including shops and lotteries) that could be covered by cash and short-term deposits available to hospices at the year-end.

**Figure 22 – Months of expenditure covered by cash and short-term deposits**

### Key findings

- On average, hospices hold just under five months of expenditure as cash in hand, and this total has been falling over recent years.

- Smaller hospices tend to have much higher cash holdings than larger hospices in comparison to their expenditure levels. The average small hospice holds about 10 months worth of cash in hand, while the average large hospice held about three and a half months worth of cash.
Key findings

- If investments as well as cash are taken into account, then the average hospice is holding around 13.5 months.
- Smaller hospices tend to have higher cash and investment holdings than larger hospices in comparison to their expenditure levels.
Return on investments

The graph below shows the income return on cash and investments (defined as dividends and interest received in the year as a percentage of the year-end carrying value of cash and investments). Unrealised movements on investments are not included.

Figure 24 – Income return on cash and investments

Key findings

- Average returns in 2016 were 2%, which reflect low interest rates during the period.
**Return on investments** (continued)

The graph below shows the total return on investments, including bank and dividend income plus the effect of any realised and unrealised gains or losses on investments.

**Figure 25 – Return on investments (including change in market value)**

![Graph showing return on investments](graph.png)

**Key findings**

- If changes in the value of investments are also taken into account, then hospices received an average return on investments of just 0.5% in 2016.

- This figure is low in 2016 because many hospices suffered falls in the value of their investments during the financial year.

- It is likely that many of these investments will have recovered their value after the year end.

- Larger hospices tended to have received stronger returns than smaller hospices, and on average they had invested proportionally more on the stock market.
Audit fees

In total, hospices spent over £2 million on audit fees in 2016 and almost £0.5 million on other services from their auditors. The graph below shows the audit fees for hospices compared to their income levels.

**Figure 26 – Audit fee per £100,000 of income (including income from shops and lotteries)**

**Key findings**

- The average audit fee (in proportion to income) has increased for most hospices in 2016.

- It is possible this may be linked to increased work due to the introduction of new accounting standards.

- However, there are clear economies of scale, with larger hospices paying proportionally far less than smaller hospices. The smallest hospices relatively pay more than double the fees of larger hospices.