Tracking flows of charitable expenditures: issues arising from the use of Charity Commission data to map the distribution of charitable resources in England and Wales

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John Stuart Mill once suggested that “charity almost always does too much or too little. It lavishes its bounty in one place and leaves people to starve in another”. If we are to pursue the analytical implications of Mill's remarks, we need defensible methods for allocating and estimating how much charitable expenditure flows to and from each locality. There are three obvious ways to think about this: numbers of charities in an area; expenditure by charities in an area; and total charitable expenditure from an area. We omit the latter since it involves the more complicated question of defining strictly "charitable" expenditures and also poses problems such as double counting (grantmaking charities could be counted twice in our statistics if they make grants to organisations") as well as issues of appropriate and available data. We first describe potential problems with constructing area indicators of charities and expenditures. We then focus on the analytical difficulties involved in relating these distributions to local socioeconomic conditions and we suggest an alternative approach, which is to think about comparing broadly similar organisations between different geographical areas.

The distribution of charities and of expenditures by charities

We could begin by simply looking at the numbers of charities, break these down by type, beneficiary and function, and take some normative view of the distribution of these relative to population (e.g. ratios / 1000 population), or need.

Such an approach requires careful consideration of which charities to include and exclude -- we have no hard and fast rules which tell us whether or not every charity in a local authority provides benefits to residents in that local authority; some charities provide benefits to other third sector organisations rather than to individuals; some provide benefits to other beneficiaries such as animals (though we might wish to include them in a consideration of the contribution of charities to the local economy); many charities are inactive; many have very limited economic weight, though that per se is not a reason for exclusion. A further analytical problem with numbers of charities is that all charities are given equal weight. Nevertheless, such a mapping does give us an introduction to the scope of the charitable sector in different parts of the country, even if it would probably be better to use a restricted definition, such as NCVO’s general charities definition, to ensure we are comparing like with like.

We need some index of the resources disbursed by charitable organisations - whether or not those resources themselves are charitable is not the issue for the moment. The assumption made by previous studies seems to be that all expenditure by an organisation can be apportioned to the jurisdiction in which it is located (for references see many North American studies; where these are conducted at the level of states, there might be an argument that most of their expenditure can justifiably be allocated to the state in which the charity is registered; this assumption is less obviously true for the counties or local government districts in England).

The objections to this kind of approach are as follows:

- there is a distinction between the administrative and operational address of many charities so that we cannot assume a correspondence between the location of a charity's offices and the distribution of its activities particularly for larger organizations
- many large national charities operate through branch structures and in some cases these are separate charities (in which case expenditure is allocated accordingly) while in others expenditure is attributed to the head office of the charity. Differences in the ways such funds are allocated might distort the aggregate pattern of expenditure
- in some cases charitable activity is related to a particular organisation or institution (such as a school, or a hospital), and not a geographical entity
- there are spillover effects which it is very complex to capture (for example, there may be indirect effects of charitable activity e.g. a project designed to divert youth from crime in an inner-city area may have the indirect effect of reducing fear of crime in a suburban area if it is successful).
- Many charities have an area of benefit which is defined by their governing documents and restricts their activities to a particular area.

In short it is restrictive simply to allocate charities and resources to the local authorities in which they are based, even if we have an operational address for them in a particular local authority. Can we improve on this?

One way is to look at the areas of benefit of charities. For about half of the charities the governing documents give us an indication of the area of benefit defined in terms of administrative units (counties, boroughs etc). For about a third of the observations the area of benefit is undefined and the remaining charities list area names which do not correspond to a local authority or other administrative unit. Where there are definitions, some relate to administrative units which no longer exist (such as ancient parishes or rural districts; these may – or may not - be regarded as historical curiosities but we do not pursue that here).

We have extracted some types of area of benefit and cross-tabulated these against deciles of registered charities by current expenditure. If these expenditure figures are correct some of these are very small indeed, particularly for those defined in terms of ancient parishes (abolished, we think, in 1851). In contrast, on the other hand, if the minimum income for the top decile group is £200,000, then a minimum of £120 million is being spent by charities which are defined in terms of rural districts, abolished in the 1974 reorganisation of local government. Some of these administrative units nest within contemporary local authority boundaries, and some don't.

So one possibility is to allocate expenditures in relation to administrative boundaries – whether historic or not, methods are available to map these against contemporary administrative units. Digital versions of administrative boundaries can be overlain on contemporary spatial units. Where units are defined only in terms of place names, gazetteers can be used though it is questionable whether this will represent a significant improvement on allocating expenditures solely according to local authority.

An alternative, where we have survey data describing the geographical extent of charities' activity, is to examine methods for apportioning expenditures between local authorities. The National Survey of Third Sector Organisations gives some indications of the area of operation of respondents which can be disaggregated by size. For example the great majority of organisations with a turnover of £10,000 or less report that they act primarily locally but this is less the case, as we would expect, for larger organisations.

Reporting mechanisms introduced by the Charity Commission now ask larger charities to name the local authorities in which they work. This could permit apportionment in relation to size of local authority. However, completion of the form is voluntary and data are not available yet.

We therefore have several possible methods for allocating expenditures, which we hope will improve our understanding of flows of charitable expenditures. What happens when we try to analyse these distributions and what options are available?

Analytical approaches

National studies in the UK such as NCVO's Almanac have referred to variations in the distribution of charities which have been picked up in the press with reports of charity "hotspots" or "deserts". How do we interpret the patterns? Correlation analyses point to associations at the local authority level, e.g. between demographic variables and ratios. For a fuller statistical account we can turn to multiple regression analyses to enable us to consider interrelationships between independent and dependent variables. Numerous North American scholars have conducted ecological regression analyses of the pattern of charitable organisations and expenditure by them, using, as independent variables, a range of demographic and socioeconomic factors relating to demand for third sector services and supply of resources. We have run a succession of regression analyses of this, replicating some of this North American work for a subset of 50 local authorities in two regions of England.

The results are equivocal. There are some strong correlations at the local authority level – e.g. rural areas appearing to have larger ratios of charities to population – but much weaker correlations for charitable expenditures. But this does not imply causality. Regression analyses have also been run with limited success. Although some plausible explanatory models could be developed for ratios of charities to population, these are plagued by multicollinearity in the independent variables. Models of the ratio of expenditures to population generated no results of significance. This raises a number of questions about how best to analyse this kind of information. In general these analyses demonstrate the problems of explaining a pattern which is an historical legacy in terms of present-day conditions (charities were founded to meet needs as perceived by their founders so we should presumably expect any association with contemporary socioeconomic conditions to be tenuous in the case of long-established charities). There are also questions about what comparisons are meaningful - how best to interpret it (for instance, is it appropriate to analyse relationships between charitable resources and social needs, or between charitable resources and local authority expenditures?).

A better approach might be to relate contemporary dynamics in the sector – growth in resources or numbers of organisations, for example – to current socioeconomic trends. For example how is population growth / decline / immigration related to the numbers of new organisations, or how is recent change in Gross Value Added related to growth in resources available to the sector in a locality? What is the impact of changes in local government provisions of public services on charitable expenditure and income in the area? This requires improved information on foundation dates of organisations, births, deaths and mergers, which is also the subject of TSRC work.

Expenditure by similar organisations in different parts of the country

An obvious analytical difficulty with aggregation is that we could end up comparing apples with pears -- depending on the mix of organisations in a particular area, and their relative size, local figures can not only be distorted (by individual large charities) but they essentially become incommensurable. To overcome this we could identify sets of organisations that exist more or less ubiquitously. Examples might include village halls, women's Institutes, parent teacher associations, and hospices. For example according to NCVO's classification of charities, based on a combination of keywords and the self-reporting to the Commission by the charities themselves, there are around 12,000 registered charities such as PTAs which are associated with individual schools.

Classification in this way allows us to analyse whether there is variation between places in the levels of resources generated by comparable organisations, and to show the extent to which such variations may be related to deprivation or prosperity. In the case of some of these -- charities associated with individual schools, or hospices -- it opens up the possibility of analysis of the complementarity or substitutability of public and private provision. For example how do the resources generated by PTAs for schools relate to expenditure by the schools themselves?

Why do we need this work

Notwithstanding some of these difficulties a better understanding of flows of charitable funds would be desirable for several reasons. It would show which communities and which types of organisation benefited most or least from charitable activity, and therefore indicate more about where future resources might best be targeted. It would tell us more about the complementarity of public and voluntary provision – indeed some apparent variations in expenditures by charities might be explicable simply in terms of variations in the extent to which services had been subcontracted to such organisations. It would also contribute to discussions about the economic weight of the sector – we currently have regional studies which overestimate the contribution of third sector organisations to regional GDP for this reason.