

An overview of VCS funding over the last decade, a summary of the current funding position and some observations about the future

A background paper for the Funding Commission

1. Introduction

This paper provides an overview of the funding environment for the voluntary and community sector (VCS)¹ over the last ten years² including:

- information on the key funding trends and drivers;
- a summary of the current funding position; and
- possible futures for the supply of funding.

2. Key trends in VCS funding over the last 10 years

2.1 *Headline trends*

- There has been consistent annual real term increases in income over the current decade, equivalent to growth of almost £1.5 billion (or 5.4%) a year between 2000 and 2007 (see figure 1 in Annex A).
- Between 1991 and 1999 the average annual increase in income was 4.5%, equivalent to growth of almost £750 million per annum³ (see figure 1 in Annex A).
- In the past three years earned income⁴ has become increasingly important in the funding mix, making up over half of all charities' income (see figure 2 in Annex A).
- Voluntary income has continued to rise over the decade but at a much slower rate than other types of income leading to a steady decline in its importance in the funding mix (see figure 2 and 3 in Annex A).
- However, the trend rate of increase in voluntary income still equates to over £200 million a year, some £1.4 billion of additional funding compared to the beginning of the decade.
- Investment income has remained roughly static in absolute terms over the previous six years.
- Income from statutory sources has increased from £8.4 billion in 2000/01 to £12 billion in 2006/07 with a significant increase in the rate at which it has been rising experienced since 2004/05 (see figure 4 in Annex A).
- Government grants to the sector decreased to £4.2 billion in 2006/07 (from £4.6 billion in 2000/01) while the sector received £7.8 billion in contract funding from statutory sources – an increase from £3.8 billion in 2000/01 (see figure 4 in Annex A).

2.2 *What is driving these trends?*

Income from the statutory sector has probably driven the voluntary and community sector funding dynamic over the current decade. The statutory sector has seen a strong comparative shift from grant funding (a form of voluntary income) to contract funding (a form of earned income) over recent years. Some of this shift is inevitably administrative, a result of calls for greater clarification of when statutory bodies are in commissioning or grant making mode.

¹ This paper focuses on 'general charities' since this is the core group tracked by the UK Civil Society Almanac which forms the key reference for this paper. The 2009 Almanac provides the most widely trusted reference on the size, shape and dynamics of the third sector.

² Though in practice the figures quoted refer mainly to the period 2000/01 to 2006/7 since this is the period for which the most consistent and continuous analysis of sector funding is available. This analysis is largely contained in the 2009 Almanac. Since the first Almanac publication in 1996 various changes to the methodology have taken place which roughly divide the 13 years worth of data into two: estimates pre-2000/01 are thought to be an underestimate of the income to the sector. Figure 1 in Appendix A illustrates the impact on income estimates of the change in methodology pre and post 2000/01.

³ Changes in charity accounting, rather than real increases in income, result in higher estimates from the year 2000/01 onwards. However, even bearing in mind different accounting methods the sector's income has increased by 140% in real terms since 1991, or £19.4 billion.

⁴ See Annex C for a typology of income types and sources.

Nonetheless, the underlying trend seems clear. In real terms there has been little change in government grants from six years ago, indeed, despite a slight increase in 2003/04, government grants to the sector appear to have decreased while earned income in the form of contract funding has doubled. Increasing statutory income is therefore primarily being received via public expenditure on the delivery of services under contract rather than support for the sector per se.

The Almanac analysis reveals that earned income, in particular from statutory sector contracts, is driving growth in the sector. This continues a long term trend largely driven by the sector's increasing involvement in public service provision.

Since 1997 the Labour government have argued that they have no ideological preference for who should deliver public services, but rather delivery decisions should be informed by who can provide the service most effectively for the resources available: the public, private and voluntary and community sector are all options. This changed emphasis led to the Treasury's cross cutting review of the role of the voluntary and community sector in the delivery of public services as part of the 2002 spending review. A report published alongside the spending review made 42 recommendations designed to remove the barriers or ease the burdens which prevented VCOs taking a greater role in public service delivery. The Government also made a financial investment: in the Home Office, to support the delivery of the recommendations across government; and in the Futurebuilders fund, to assist front-line third sector organisations to build their capacity to increase the scale and scope of their public service delivery.

The cross cutting review set a target of April 2006 for full implementation of its recommendations; the National Audit office undertook a review of progress; a further cross cutting review was undertaken by the Treasury in 2004 to consider how to support implementation of the 2002 review⁵; and a further review, as part of the 2007 comprehensive spending review, of the sector's future role in social and economic regeneration, built on the preceding two reviews.

Consequently government policies to reform the delivery of public services and increase the opportunities for VCS involvement in public service delivery, have all helped to create the conditions for the sector to increase its involvement in service provision. At the same time the desire on the part of VCOs to achieve sustainability by diversifying income streams has often, in practice, meant earning more income. This means many charities are becoming more market orientated in response to the changing landscape in which they operate.

Although voluntary income has declined in importance in the overall funding mix, it should not be seen as a diminishing resource that is likely to fade away. It is still increasing and continues to define and influence the shape and operation of the sector.

The Government has continually supported and promoted voluntary giving by individuals and the private sector through a range of policy developments and initiatives, and has done much to modernise tax effective giving methods over the last decade. Since the first comprehensive review of charity taxation launched in 1997, which led to the *Getting Britain Giving* package of measures and ensuing Government-sponsored Giving Campaign and, more recently, the Giving Nation campaign⁶ (a schools-based programme which aims to build a new culture of giving and volunteering amongst young people), public awareness and use of tax-efficient giving has grown steadily during this decade

⁵ In particular by building understanding, strengthening local partnerships and pressing for progress in particular service delivery areas.

⁶ <http://www.g-nation.co.uk/>

Current government policy in relation to charitable giving dates back to the publication of *A Generous Society*⁷ in 2005. This document framed much of the current policy debate by aiming to “*foster a deeper culture of planned, regular and tax-efficient giving.*” More recently, the Treasury’s *Third Sector Review*⁸ built on these aims by setting out additional proposals to encourage charitable giving and, in particular, increase the use of tax-efficient giving. And in June 2007, the Government carried out a consultation on the operation of Gift Aid and published a series of further action points alongside the March 2008 Budget⁹.

Indeed there is clear political consensus around the need to embed more widely the giving habit and further increase the use of Gift Aid. For example, work by the Centre for Social Justice¹⁰ and the Conservative’s Green Paper on voluntary action¹¹ both argue for the need to create a new ‘pro-social norm’: a widely held expectation that people give 1% of their income to charity.

While cultural change may take a generation to implement, more short term results could be expected in relation to bringing about a culture of philanthropy amongst the relatively wealthy. Consequently there continues to be significant public policy interest in what has variously been termed ‘new philanthropy’, ‘venture philanthropy’ and ‘philanthrocapitalism’: charitable giving by wealthy individuals, often involving significant sums and, critically, donations based on criteria that might be best referred to as ‘business principles’, most typically cited as return on investment.

A further source of voluntary income worthy of particular note is the National Lottery. Income from National Lottery distributors contributed £550 million in 2001/02. In 2006/07 organisations received £589 million or just under 2% of their total income from National Lottery distributors, including the Big Lottery Fund, Arts Council England and the Heritage Lottery Fund. One third of National Lottery funding to the sector in 2006/07 went to health and social services organisations – perhaps a reflection of the changing Lottery policy landscape since the creation of the New Opportunities Fund in 1998, with a new, government-directed focus on health, education and environment, its merger with the Community Fund in 2003 and the creation of the Big Lottery Fund in 2006. However, nearly one-third of Lottery funding to the sector accrues to culture and recreation organisations, a reflection of the importance of the Heritage Lottery Fund to charities and a reminder that the sector does not only benefit from the Big Lottery Fund. Nevertheless the Big Lottery Fund is responsible for giving out half the money raised by the National Lottery for good causes.

3. The current position

3.1 *Headline figures*

- Charitable activity continues to grow with a net rise of 6,810 general charities from 2005/06 to 2006/07. The total number of general charities is now over 170,900.
- In 2006/07 general charities’ income increased by 3.3% from the previous year to £33.2 billion.
- Earned income accounted for £17 billion or 51.2% of the sector’s total income in 2006/07.

⁷ Home Office (2005) *A Generous Society. Next steps on charitable giving in England.*

⁸ HM Treasury, Cabinet Office (2007) *The future role of the third sector in social and economic regeneration: final report.*

⁹ http://www.hm-treasury.gov.uk/bud_bud08_giftaid.htm

¹⁰ *Breakthrough Britain, Volume 6: Voluntary Sector pp20-35.*

See www.centreforsocialjustice.org.uk/client/downloads/third%20sector.pdf

¹¹ www.conservatives.com/Policy/Responsibility_Agenda.aspx

- Voluntary income accounted for £13.6 billion or 40.8% of the sector's total income in 2006/07.
- Investment income accounted for £2.6 billion or 8% of the sector's total income in 2006/07.
- Individuals are currently the main source of income for the sector, closely followed by statutory sources - but 75% of all charities do not receive *any* income from statutory sources.
- 56% of the public make a donation each month.
- Over 70% of legacy income to the sector is received by just over 400 major charities.
- Three quarters of the income of general charities is received by the large and major charities: 411 major charities (0.2%) control 42.8% of the sector's income.
- One third of the sector's assets are held by just 54 organisations: four charities alone own 20% of the sector's total assets.
- Nearly one in four micro and small organisations have recently experienced significant volatility problems¹².
- Over 98,000 organisations (57% of general charities) do not have enough funds to cover twelve months of expenditure.

3.2 *Income to the sector from individuals*

Individuals are currently the main source of income for the sector, closely followed by statutory sources. Over half of all voluntary income to the sector comes from individuals (52.5% in 2006/07). This is up from 47% in 2005/06.

International, environment and religious organisations receive over half of their income from individuals, indeed religious organisations receive nearly two-thirds of their income from individuals. By contrast umbrella bodies, law and advocacy organisations and housing organisations receive under a quarter of their income from individuals, and in the case of employment and training organisations, as little as 10%.

Income from individuals is particularly important for micro and small organisations, though this also reflects the small number of these organisations which have a financial relationship with the public sector. In fact, 59% of micro-organisations receive over half of their income from individuals.

Individuals are also the main source of income for major charities, accounting for 39% of their income. This group of 413 charities, which includes many of the well-known fundraising 'brands' generated 44p of every £1 from individual donors and purchasers.

*UK Giving 2008*¹³ provides insights into trends in individual charitable giving up to March 2008. It reveals that:

- in a typical month 56% of the public make a donation, a finding consistent with previous years;
- despite emerging tensions in the UK economy at the time of fieldwork, many individual donors increased their support for charities in 2007/08;
- the mean average monthly amount given per donor increased to £33 from £29 in 2006/07 (although the amount most frequently given - i.e. the median gift - was relatively

¹² As defined by the Almanac analysis as having had over a 20% change in income between 2005/06 and over a 20% change in income in the opposite direction in 2006/07.

¹³ UK Giving is based on now well-established survey questions. The survey is run three times each year as a module in the Omnibus Survey carried out by the Office for National Statistics. The methodology has remained the same for the past three years.

unchanged, and has not changed significantly in the four years this survey has been carried out);

- high level donors¹⁴ continue to drive the gift economy: only 1 in 12 donors gave more than £100, yet their donations accounted for over half of the total amount given. Charities continue to be dependent upon a core of approximately 2.1 million relatively generous, committed supporters;
- a long term, gradual shift away from more spontaneous forms of giving, which are predominantly cash transactions, to more planned methods using, for example, credit cards and Direct Debit, continues to be evident.

As discussed in section 2.2, Government policy over the last decade has focused on ways to encourage charitable giving and, in particular, increase the use of tax efficient giving. However, the figures suggest that while income from voluntary sources (including both grants *and* donations) continues to grow by some £200 million a year, it is growing at a slower rate than earned income. Nevertheless, while earned income is driving growth in the sector, voluntary income – and in particular individual charitable giving - will continue to define and influence the shape and operation of the sector. Indeed, over 50% of voluntary income to the sector is from individuals.

Legacy income is one form of voluntary income from individuals worthy of particular note. Charities' income from legacies stood at £1.7 billion in 2006/07, accounting for about 5% of the sector's income. This was a 6% decrease since the previous year. Legacy income is the single largest source of fundraising income for the top 300 charities, worth just over one-quarter of their total fundraised income (26%).

Legacies form a substantial, though volatile, source of income for charities, although they are still much more likely to be received by the largest organisations and have particular importance to some general charity sub-sectors (e.g. social services organisations and environmental organisations, including animal welfare charities, which each receive nearly one-quarter of legacy funding to the sector). Over 70% of legacy income to the sector is received by just over 400 major charities with just under 3,700 general charities in total receiving legacy funding. People wishing to leave money in their will continue to favour well-established household name charities that have a strong track record. However, figures for the most recent year for the top 300 fundraising charities¹⁵ shows legacy income growth slowed to just 1.2% in real terms. By comparison, annual real growth in the top 100 legacy incomes between 2002/03 and 2006/07 has been a modest 3%, compared to the 7% reported for the late 1990s.

3.3 *Income from statutory sources*

Income from statutory sources¹⁶ totalled £12 billion in 2006/07, up by 5% since April 2006 but a more moderate increase than in the previous year. A growing proportion of income from statutory sources is earned via the delivery of services under contract. For example, employment and training organisations receive over two thirds of their income from statutory sources and social services organisations receive £4.3 billion from government, accounting for 42% of all government contracts to the sector. Not surprisingly, these sub-sectors all relate to public service delivery.

Medium-sized organisations rely on statutory income as their main source of income. It accounts for nearly 40% of their income, a higher level of dependency than other income

¹⁴ High level donors are defined in *UK Giving 2008* as those who give £100 a month or more.

¹⁵ Pharoah C (2008) *Charity Market Monitor 2008. Tracking the Funding of UK Charities. Volume One: Fundraisers.*

¹⁶ This includes resources from UK central, local and devolved administrations, international bodies, overseas governments and the National Lottery distributors.

groups. Approximately half of their income from this source is from local government. However, charities in this group are more likely to receive statutory income as grants. Grants account for 56% of statutory funding to this group. By comparison, micro and major charities are more likely to receive statutory funding on a contractual basis, receiving 72% and 77% of their statutory funding from contracts. These statistics should raise concerns about the future sustainability of funding for medium-sized organisations as government grants remain static.

However, it should be noted that 75% of all charities (117,000 charities) do not receive *any* income from statutory sources. Fewer than one in ten micro charities had a direct financial relationship with the state, whilst over two thirds of small organisations receive no income from government. And almost half of the major organisations receive less than 25% of their funding from government. Indeed, only 16% of charities are heavily reliant on income from government.

It is also worth noting that in 2006/07 just under half the statutory income to charities came from local authorities (47%), which highlights the importance of the relationship between local government and the charitable sector.

3.4 *Income from the voluntary sector*

The voluntary sector itself is an important source of funds for general charities. This source represents the grant-making activities of charitable trusts and foundations, though there is evidence to suggest that an increase in partnership working and trading is increasing the circulation of resources within the sector.

Grants from voluntary organisations¹⁷ decreased to 11.7% of all voluntary income in 2006/07 (from 16% in 2005/06).

Large charities receive most of this source of income. However micro and small charities are relatively dependent on grants from voluntary organisations. Nearly 15% of micro, small and medium organisations each receive the majority of their income from other voluntary organisations. In fact, for micro organisations other voluntary organisations are a more important source of income than the statutory sector, the only income group for which this is the case. This is probably a reflection of grant-making trusts and foundations specifically targeting the smallest groups.

3.5 *Other sources of income*

Income from the private sector totalled £1.7 billion in 2006/07, accounting for 5% of general charities' overall income.

Internally generated income – primarily from investments, but also the profits from trading subsidiaries – accounted for 12% of income to general charities. This source of income was particularly important for micro organisations, accounting for 15% of their income. This reflects micro-organisations' reliance upon investment income such as interest earned on bank deposits.

Investment income is particularly important to research organisations (this includes -many of the large research foundations) and grant-making foundations, both of whom have substantial investment asset holdings.

3.6 *Distribution of resources across areas of economic activity*

The sector's resources are focused towards social care and culture and recreation. Organisations involved in social services, culture and recreation, and health activities make

¹⁷ Grants from charitable trusts and those distributed by charitable intermediaries.

up the majority of the sector's economic activity. Indeed, social services organisations receive one-quarter of the sector's income.

3.7 Income volatility

It can be argued that as important as growth in income is the predictability of income. The lack of predictability is a well-known issue for the sector (particularly in the context of reserve levels – see 3.9) and is often blamed on the short term nature of contracts and grants. It is well known that volatility and uncertainty in income streams makes financial planning problematic and can result in sub-optimal use of resources as charities have to constantly plan for 'what if...' scenarios. Income volatility is more prevalent amongst smaller organisations. Nearly one in four micro and small organisations have recently experienced significant volatility problems, with over a 20% change in income between 2005/06 and over a 20% change in income in the opposite direction in 2006/07.

3.8 Expenditure

In 2006/07 general charities' expenditure stood at £31.2 billion, a real increase of 3.3% over the previous year¹⁸. This suggests the sector is getting bigger in terms of its level of operation and not just in terms of the number of charities.

Total current expenditure was almost £2 billion less than total income resources. This might indicate that some organisations are generating a surplus or trying to build reserve levels, however it is more likely accounted for by capital expenditure¹⁹.

The proportion of expenditure spent on the 'mission' continues to gradually increase year on year. General charities spent £22.6 billion carrying out their charitable activities in 2006/07. This represents a 3.6% increase in real terms from the previous year.

As organisations generate more income, they are more likely to spend money on generating funds. Major charities spent 13.9% of their expenditure on generating income but micro charities spent a much smaller 2.3% however the cost of generating income is falling as a proportion of total spending.

3.9 Assets

Total assets held by general charities in 2006/07 totalled £104.2 billion²⁰. Total funds stood at £19.3 billion, growth of £2.1 billion in 12 months.

General charities had, on average, sufficient funds to cover three years' worth of current expenditure²¹. However, this masks significant disparities within the sector: over 98,000 organisations (57% of general charities) do not have enough funds to cover twelve months of expenditure²².

While assets of all types showed growth, liabilities of charities grew at a faster rate. Longer term liabilities²³ showed more growth than short term ones, particularly for larger

¹⁸ This increase equals the rise in income (3.3%).

¹⁹ While an up to date estimate for capital expenditure is not available, had the last available figure for 2001/02 increased with inflation, the sector would have spent £1.9 billion in 2006/07.

²⁰ Grant making foundations, including those funding research activities, accounted for half of the sector's assets and two-thirds of the sector's investment assets.

²¹ This figure includes foundations and trusts which, by their nature as grant-makers, keep considerable reserves to fund their grant-making activities and provide a source of income in the form of investments.

²² These figures include tangible fixed assets: free reserve levels will therefore be lower, so this is likely to be an underestimate of the proportion of organisations with insufficient resources to cover a fall in income.

²³ Longer term liabilities are those where payment is due after one year

organisations better able to plan finances over a longer period. This could be the consequence of increased use of loan finance as a vehicle for expansion of charitable activities, an approach championed by Government initiatives such as Futurebuilders.

4. The impact of the recession

The impact of the current recession and the likely recovery time clearly dominates any debate about the future income of the voluntary and community sector, particularly in the short to medium term. Some work has already been undertaken to assess the likely impact of the current recession on the voluntary and community sector based on evidence from previous downturns. However, the evidence is thin and often conflicting. The only certainty is that the impacts are likely to be mixed: some organisations will fail; others will emerge stronger; some sectors will face increased demands; others fewer. At the same time some income sources and costs will decline while others will increase. Evidence suggests the sector is relatively poorly capitalised and in the short-term mid-sized organisations in particular are financially vulnerable²⁴.

Evidence suggests philanthropy is relatively resilient: while donations may dip they do recover over time. Consequently it is the funding practices and policies of statutory bodies that is likely to have a major say on the health of the sector.

Statutory funding practices, particularly in relation to public service delivery contracts, will shape the impact of recession on 40,000 charities. For example, a 10% cut in statutory funding would equate to a drop of £1.2 billion in income to the sector²⁵. However, it is worth remembering that 130,000 charities have no funding relationship with government.

Investment income is particularly vulnerable as a combination of lower interest rates and asset prices reduce returns on investment. Grant making foundations in particular rely on investment income, so in the medium term, any fall in investment income is likely to impact on the sector's voluntary income as foundations' capacity for grant making is reduced.

In summary the evidence suggests:

- the sector's total income does not necessarily decrease in economic downturns;
- the sector's assets are held by a relatively small number of organisations, mostly foundations. Therefore, many VCOs will not be *directly* affected by falling asset values. However mid-sized organisations in particular have been unable to build surpluses and therefore reserves. These organisations in particular are susceptible to short term falls in income;
- the largest organisations are more capable of resilience. And smaller or less established organisations are the ones more likely to suffer hardship;
- VCOs do not have sufficient reserves to withstand an even relatively short downturn. Many medium-sized charities do not have enough reserves for 12 months;
- government funding policies, practices and attitudes are crucial;
- charitable giving from individuals does not fall in economic downturns but corporate giving varies with economic performance;
- some VCOs are cutting staff, but this may not be widespread;
- donors focus giving on existing recipients during downturns, implying that those organisations or sub-sectors already attracting widespread support will emerge stronger.

²⁴ Wilding, K (2008) *Economic downturns and the voluntary and community sector: a short review of the evidence*

²⁵ Figures presented in a presentation to NCVO's Advisory Council, February 2009

VCS Funding: possible futures for the supply of funding

Public Sector	General public
<ul style="list-style-type: none"> • In the <u>shorter term</u>, local authorities could be more willing to explore possibilities for asset transfer following a reduction in property values. • There is also likely to be further reductions to EU funding as more countries enter the EU. • A new Conservative government is likely to result in greater focus on funding of local community groups to deliver niche services. • Both political parties are keen to explore opportunities for social investment, including the development of a social investment bank. • In the <u>medium term</u>, a tighter economic climate is likely to result in reduced funding to the VCS as funding for public services and non-essential activities reduces. <ul style="list-style-type: none"> ○ This could have a dramatic effect on VCOs, which receive nearly half their funding from the public sector; ○ Or it could have a rather limited effect as funding to the VCS makes up a very small proportion of total government spend. • Changes to public sector funding are likely to effect different parts of the VCS differently. For example, we may see an increase in VCOs being contracted to deliver innovative social care services or unemployment services. • Individuals budgets are increasingly popular with both political parties. If implemented, they could have a negative impact on VCOs who are currently delivering block contracts. But they could be a positive move for organisations delivering niche services. 	<ul style="list-style-type: none"> • The range of types of giving and varying motivations for it mean that the impact of the recession on giving is difficult to predict. In the <u>shorter term</u>, wealthy donors may defer gifts until the economy is more certain. Some donors may cancel their monthly direct debits. • The recession could result in changing patterns of consumption. This could have a positive effect on parts of the VCS as people try to economise, e.g. second hand shops. But it could also have a negative impact on organisations trading in more expensive ethical goods. • Technological advancements are likely to make it easier for donors to give to a wider range of organisations and to make micro-payments e.g. pennies4change • In the <u>longer-term</u>, giving from legacies is likely to increase with the rise in single affluent women. And future generations of young people who have been the focus of government policy may be more likely to give donations. • Improvements to tax effective policies and public awareness are likely to increase income from this stream. • Changes in social attitudes are likely to result in an increase in ethical consumerism. This could effect giving to the VCS, as donors choose to buy ethical products over giving donations. • The trend towards venture philanthropy is likely to continue, with donors taking a more involved approach to giving. • Increasing global citizenship and technological advancements could result in more donations going to charities working overseas. • New (social lending) and traditional forms (credit unions) of mutual finance may become increasingly popular.

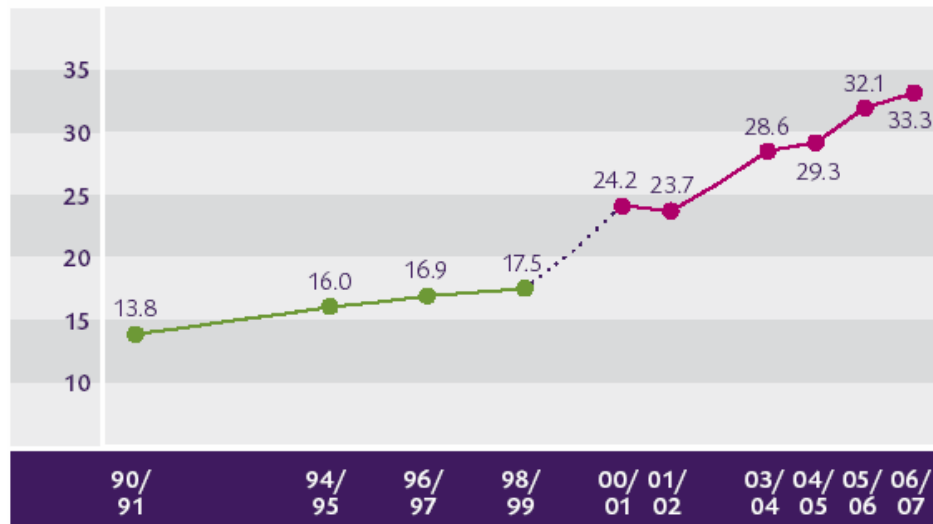
Voluntary Sector	Private Sector
<ul style="list-style-type: none"> • In the <u>shorter term</u>, a reduction in investment income could reduce VCS funding from Grant Making Trusts. • In the <u>longer-term</u>, Grant Making Trusts may be able to sustain levels of support by spreading risk over several years. • A more sophisticated social investment market, and a desire to make limited resources work harder may result in an increase in programme-related investment among Grant Making Trusts. • Increasing demand and competition for funding is likely to result in funders demanding VCOs demonstrate longer-term outcomes. 	<ul style="list-style-type: none"> • In the <u>shorter term</u> a tighter public spending environment and a localist agenda could result in an increase in the private-sector sub-contracting with the VCS to deliver services on its behalf. • The research points out that corporate social responsibility is linked to business cycles, suggesting that there will be little money for this in the shorter-term. • In the <u>longer-term</u>, increasing need to rebuild trust results in private sector trying to align itself more closely with the VCS through ethical investments, corporate social responsibility and volunteering. • A change in Government legislation in relation to the release of money from dormant bank and building society accounts could result in more money coming to the VCS from this source.

Appendix A

Supporting graphs and tables

Figure 1

General charities' income, 1991–2007 (£ billions)



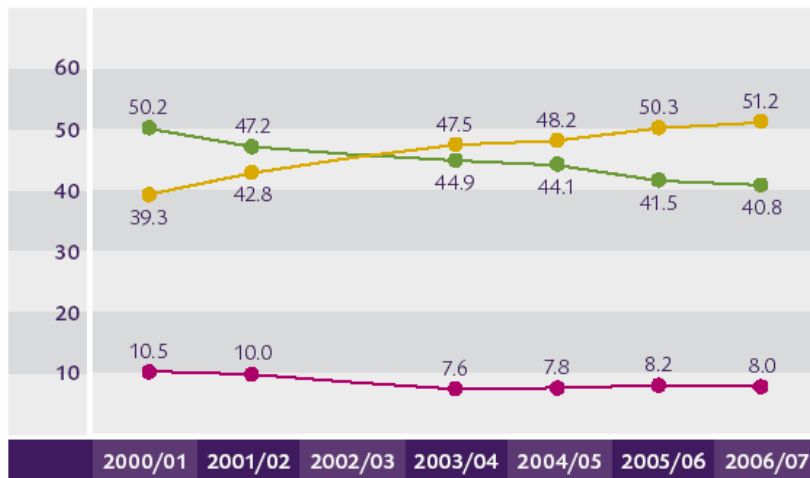
Source: NCVO, GuideStar Data Services

- Figure 1 shows the long term trend of increases in general charities' income.
- Changes in charity accounting, rather than real increases in income, result in higher estimates from the year 2000/01 onwards. Changes in the SORP meant that charity accounts shifted from recording total income to total incoming resources. Previously, large gifts such as legacies that would be expended over multiple years were not added to annual income, but added straight to the balance sheet. SORP compliant accounts now include all incoming resources, which in part explains the step increase in total income.
- Income increases reflect both organic growth and the creation of new charities. For example, income has increased at a higher rate than both the number of organisations and their average income. The 2009 Almanac saw a net addition of 6,800 general charities to its population estimates for 2006/07. The core measure of the size of the sector now stands at almost 171,000 general charities in the UK.

Figure 2

Type of income, 2000/01–2006/07 (%)

■ Earned ■ Voluntary ■ Investment



Source: NCVO, GuideStar Data Services

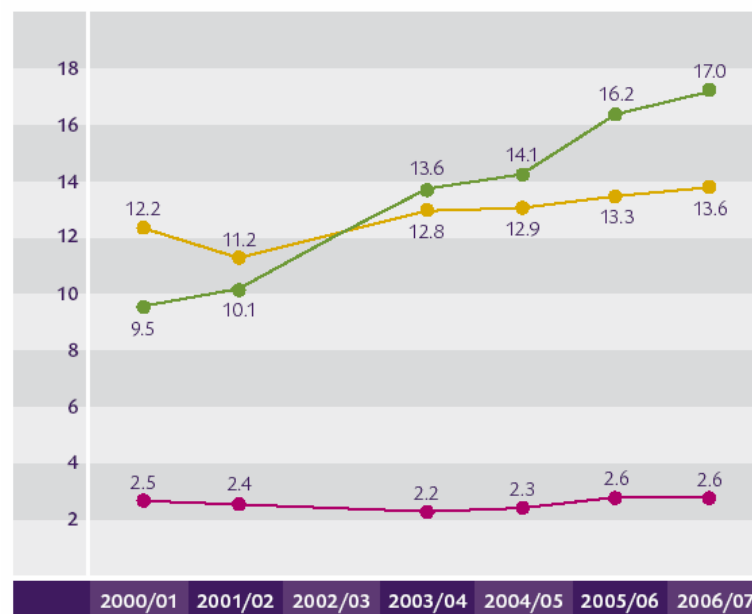
Note: 2002/03 figures are inferred.

- Since 2000/01 voluntary income has fallen by 9.4% to 40.8% of sector income.
- Earned income increased by 11.9% over the same period to 51.2% of sector income.
- Investment income remained roughly static in absolute terms over the last 6 years accounting for £2.6 billion of income in 2006/07 (8% of sector income) compared to £2.5 billion in 2000/01 (see figure 3).

Figure 3

Type of income, 2000/01–2006/07 (£billions)

■ Earned ■ Voluntary ■ Investment



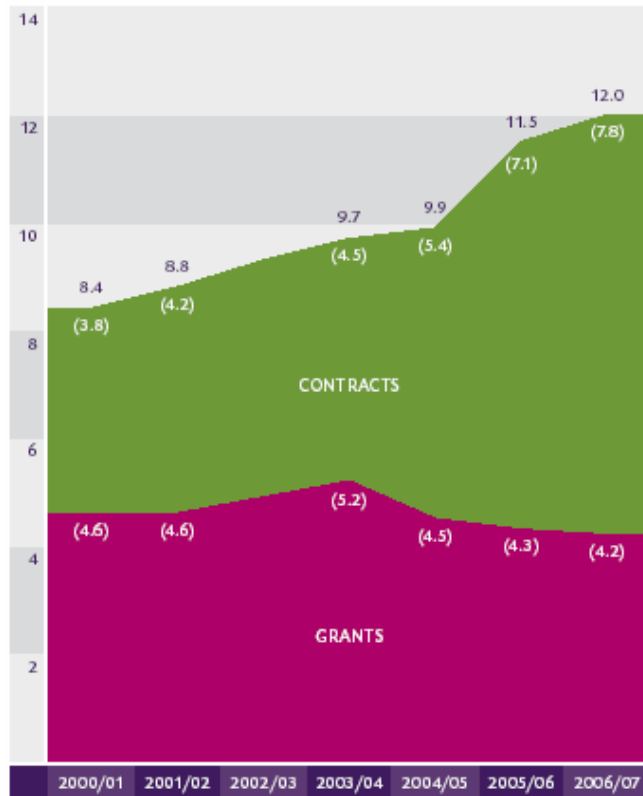
Source: NCVO, GuideStar Data Services

Note: 2002/03 figures are inferred.

- Figure 3 shows that while voluntary income has grown over the decade, it has done so at a much slower rate than earned income, leading to a steady decline in its importance in the funding mix.
- Earned income is clearly driving growth in the sector.

Figure 4

Grants and contracts from statutory sources, 2000/01–2006/07 (£billions)



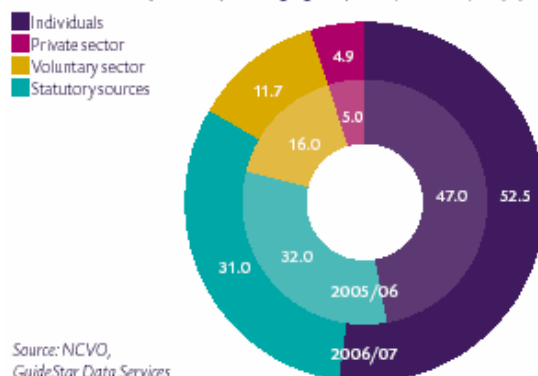
Source: NCVO, GuideStar Data Services

Note: 2002/03 figures inferred.

- The statutory sector has seen a strong comparative shift from grant funding to contract funding over recent years.

Figure 5

Sources of voluntary income (including legacies), 2005/06–2006/07 (%)



Source: NCVO, GuideStar Data Services

Figure 5 shows the distribution of income from voluntary sources compared to the previous year.

- Income from statutory sources (i.e. grants) decreased slightly from the previous year to 31%, continuing the trend of grants from government remaining static.
- Voluntary income from individuals increased to 52%, accounting for over half of all voluntary income.

Figure 6

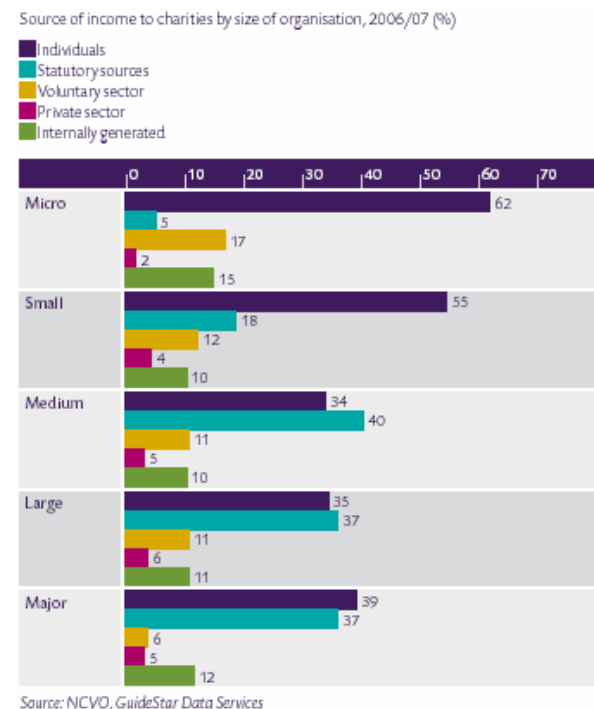
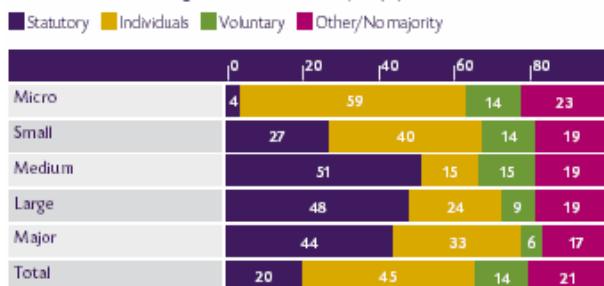


Figure 6 illustrates charities' income sources by size of organisation.

- Income from individuals is particularly important for micro and small organisations. 59% of micro organisations receive over half of their income from individuals (see figure 7).
- Individuals are also the main source of income for major charities, accounting for 39% of their income.
- Nearly 15% of micro, small and medium organisations each receive the majority of their income from other voluntary organisations (see figure 7).
- For micro organisations, other voluntary organisations are a more important source of income than the statutory sector, the only income group for which this is the case.

Figure 7

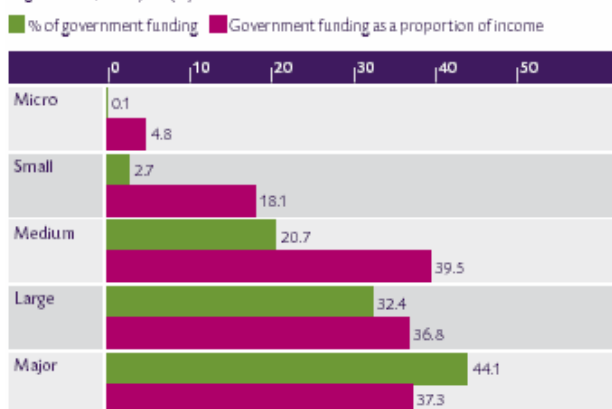
Majority funders: percentage of organisations that receive more than 50% of funding from one source, 2006/07 (%)



Source: NCVO, GuideStar Data Services

Figure 8

Importance of statutory funding and proportion of statutory funding by size of organisation, 2006/07 (%)



Source: NCVO, GuideStar Data Services

Figure 8 shows the proportion of government funding to the sector by size of charity.

- The distribution is similar to the overall funding distribution for general charities, suggesting that government funding may be driving the funding dynamic.
- Medium size organisations rely on statutory funding as their main source of income. These charities receive just over one-fifth of total government funding to the sector, of which approximately half is from local government (see table 9).
- Statutory sources account for nearly 40% of their income, a higher level of dependency than other income groups.
- Moreover, charities in this group are more likely than any other size to obtain statutory funding in the form of grants, which account for 56% of statutory funding to this group.

Table 9

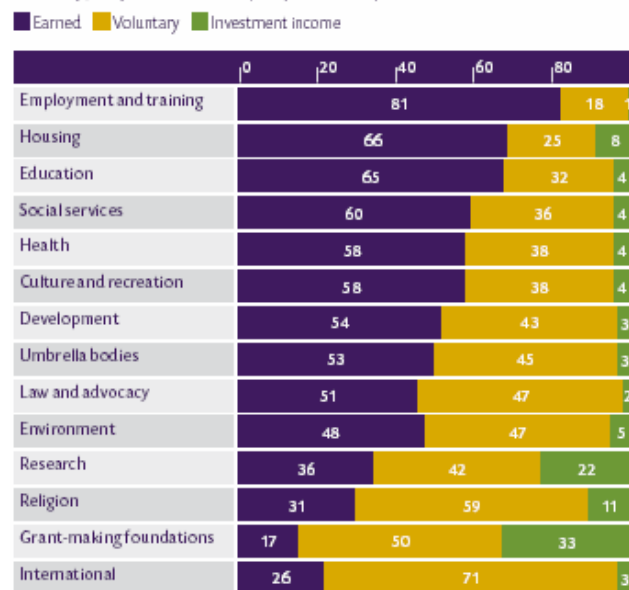
Statutory income by size of organisation, 2006/07 (£billions)

	Micro	Small	Medium	Large	Major	Total
Central government	3.9	182.3	954.9	1,551.0	2,451.6	5,143.7
Local government	7.0	98.3	1,295.3	1,880.5	2,371.4	5,652.5
Other government (International and National Lottery)	2.1	43.6	242.7	470.0	473.1	1,231.6
Total	13.0	324.3	2,492.8	3,901.5	5,296.2	12,027.8

Source: NCVO, GuideStar Data Services

Figure 10

Income types by sub-sector, 2006/07 (% of income)



Source: NCVO, GuideStar Data Services

The type of income received by different sub-sectors is shown in figure 10²⁶.

- Sub sectors which relate to public service delivery (e.g. employment and training, housing, education, social services and health) earn the greatest proportion of their income and are less dependent on grants and donations. For example, social services organisations receive £4.3 billion from government, accounting for 42% of all government contracts to the sector.
- Only three sub-sectors – international charities, religious organisations, and grant-making foundations – receive the majority of their income through grants and donations.
- Investment income is particularly important to research organisations (this includes - many of the large research foundations) and grant-making foundations, both of whom have substantial investment asset holdings.

²⁶ It is important to note that these figures show the average picture for each sub-sector, and do not show the wide variety of income sources for individual organisations.

Appendix B

Charity Income Groups

Income of charity	Name
Less than £10,000	Micro charities
£10,000 to £100,000	Small charities
£100,000 to £1million	Medium charities
£1 million to £10 million	Large charities
More than £10 million	Major charities

Source: UK Civil Society Almanac 2009

Appendix C

The different sources and types of income

Source of income	Type of income		
	Earned income	Voluntary income	Investment returns
General public	Fees for services provided Fees for goods Membership subscriptions with significant benefits	Individual donations (gross, including Gift Aid reclaimed) Covenants Legacies Membership subscriptions without significant benefits	
Statutory sources	Public sector fees Payments for contracted services	Funding grants Grants to charitable intermediaries	
Voluntary sector	Services provided under contract	Grants from charitable trusts Grants distributed by charitable intermediaries	
Private sector	Sponsorship Research or consultancy Patent royalties	Corporate grants or gifts	
Internally generated	Gross turnover of trading subsidiaries		Dividends Interest payments Rent from investment property

Source: UK Civil Society Almanac 2009

Annex D

Key sources used in the preparation of this paper

Clegg S and Goodey L (CAF) Walls P and Wilding K (NCVO) Schnepf S and Micklewright J (University of Southampton) (2008) *UK Giving 2008. An overview of charitable giving in the UK in 2007/08*

Kane D, Clark J, Lesniewski S, Wilton J, Pratten B and Wilding K (2009) *The UK Civil Society Almanac 2009*. NCVO.

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