

Chapter 7

Income

Highlights

- Total income for the sector was £26.3 billion in 2003/04.
- The sector's income increased by £1.05 billion in real terms, between 2002/03 and 2003/04, largely as a result of an increase in the number of general charities.
- Over two-thirds of total income was generated by just over 3,200 organisations. Moreover, a group of 14 'super charities' generated 10% of the sector's income.
- The public sector accounts for 38% of total income, and is the largest single source of income.
- Earned income from the sale of goods and services (47%) has replaced voluntary income (grants and donations) as the main type of income (45%).

7.1 Introduction

This chapter covers the sources, types and total amount of income flowing into the UK voluntary sector. It summarises what is still a complex and changing picture: there is no overall trend that applies to the voluntary sector as a whole, and the picture is further complicated by the continued expansion of the sector as new organisations are established and existing organisations gain charitable status. Furthermore, the experience of large general charities (typically those with annual incomes of more than £1 million) continues to diverge from smaller organisations.

Strategies for sustainability often place emphasis on the diversity of income streams. One way of making sense of this diversity is to categorise income according to the source (where does the money come from?) and type (how does the money reach the charity?). A detailed discussion of sources and types forms the main part of this chapter.

The data are for the financial year 2003/04: the latest available. Where possible, we have made comparisons with earlier years. All figures have been adjusted for inflation and are expressed in 2003/04 prices, in order to show real change.



The chapter concludes by providing detailed tabulations of income, showing both proportions and real figures. Most of the charts used to illustrate the text are based on these tables.

7.2 Total and average income

Although real changes in income are difficult to measure over the long term⁴, it is clear from a number of indicators, including total income, that the sector's economic footprint is growing. The total income of general charities in 2003/04 was £26.3 billion, compared with £25.3 billion in 2002/03. This represents a 4.2% real increase in total income, or £1.05 billion.

Table 4: Total income by size of organisation, 2002/03 and 2003/04 (£million)

	Under £10k	£10-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2002/03	290.8	1,845.2	5,541.1	7,656.4	9,939.2	25,272.7
2003/04	289.2	1,736.6	5,882.8	8,171.7	10,233.2	26,322.6
Total change (%)	-0.6	-5.9	6.2	6.7	3	4.2
Total change (£million)	-1.6	-108.6	341.7	515.3	294	1,049.9

Although total income increased between 2002/03 and 2003/04, once again our evidence suggests that the smallest general charities are struggling to maintain income levels. The total amount generated by organisations with incomes of up to £100,000 fell by £110 million in total, despite an increase in the number of organisations of this size. This trend is reinforced by the decline in average incomes in this group (see below).

As already noted in Chapter 6, the number of general charities rose between 2002/03 and 2003/04, and we believe this is one of the main factors underlying the £1.05 billion increase in total income. England, Wales and Scotland all saw increases in income between 2002/03 and 2003/04, but Northern Ireland saw a slight decrease in total income from £592.6 million to £585.3 million. Our evidence shows that while the *sector's* income is increasing, average incomes illustrate a different picture. *Individual organisations* would appear to be doing less well as average incomes for all organisations in the sector were either fairly static or falling.

The £10,000 to £100,000 band saw the largest decrease from £37,156 in 2002/03 to £33,791 in 2003/04, a fall of almost 10%. Organisations with incomes between £100,000 and £1 million saw an increase in average income of 2.4%. Overall, average income for the whole sector increased by less than 1%, from £154,067 to £155,526. This suggests that the 'average organisation' has struggled to increase revenue beyond the rate of inflation.

⁴ Comparisons are made difficult by improvements to the data held on the sector, which mean that increases in relation to previous data may simply reflect better coverage of the sector. Therefore, we have not made comparisons with the total income reported in the 2004 Almanac.

As already noted, comparisons with previous surveys are indicative only. These average incomes are broadly comparable to those recorded in our 2001/02 survey, although differences in sample size and methodology account for some of the difference. Broadly speaking, these averages do confirm the oft-repeated anecdotal evidence that small general charities are doing less well in relation to larger organisations.

Table 5: Average income by size of organisation, 2000/01 - 2003/04 (£)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01	4,280	37,855	345,884	2,759,624	34,948,512	138,826
2001/02	3,363	35,647	320,594	2,802,049	35,134,765	136,020
2002/03	3,127	37,156	301,415	2,825,549	35,459,748	154,067
2003/04	3,121	33,791	308,590	2,789,259	35,251,216	155,526

How representative are these average increases and decreases in total income? Table 6 shows the proportion of general charities in each income band that experienced an increase, decrease or no change. This clearly illustrates winners and losers in each group. Importantly, the table shows that the sector-wide increase in total income is caused, partly, by a majority of general charities (58%) experiencing an increase in income.

Table 6: General charities' share of income change by size of organisation, 2002/03-2003/04 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All*
Income increased	18	54.1	64.2	73.6	75.1	58.3
No change (\pm 1%)	2.5	6	5.7	5.1	2.8	5.8
Income decreased	79.4	39.8	30.1	21.3	22.1	35.9
Total	100	100	100	100	100	100

*Weighted to reflect the number of UK general charities in each income band

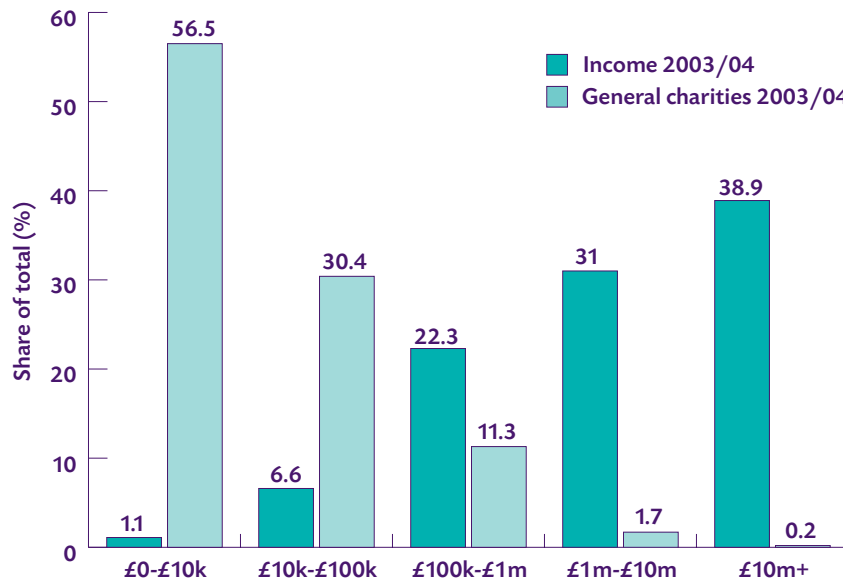
7.3 The distribution of total income

The estimates of total income in the Almanac are based on the assumption that there are over 169,000 general charities in the UK. As the previous section highlighted, total income is unevenly distributed between these organisations. The characteristics of this distribution are illustrated in Figure 3. The sector's income continues to be heavily concentrated in a relatively small number of organisations. Over two-thirds of total income is now generated by around 3,200 organisations. This is equivalent to 2% of the sector.

Most starkly, we are also seeing the emergence of a small group of what might be called ‘super-charities’: 14 organisations, mostly household name brands, with an annual income of over £100 million. Together, they generate 10% of the sector’s income. These organisations have been particularly successful in either securing public donations and legacies, or delivering public services under contract to government. Some have managed both. Examples include Cancer Research UK, The National Trust, Barnardo’s and Leonard Cheshire. These organisations are likely to increasingly shape public perception of the sector as a whole while being responsible for an increasing proportion of the public services delivered by the sector.

At the other end of the scale, the vast majority (86.8%) of organisations have incomes of less than £100,000, but they generate less than 8% of the sector’s income.

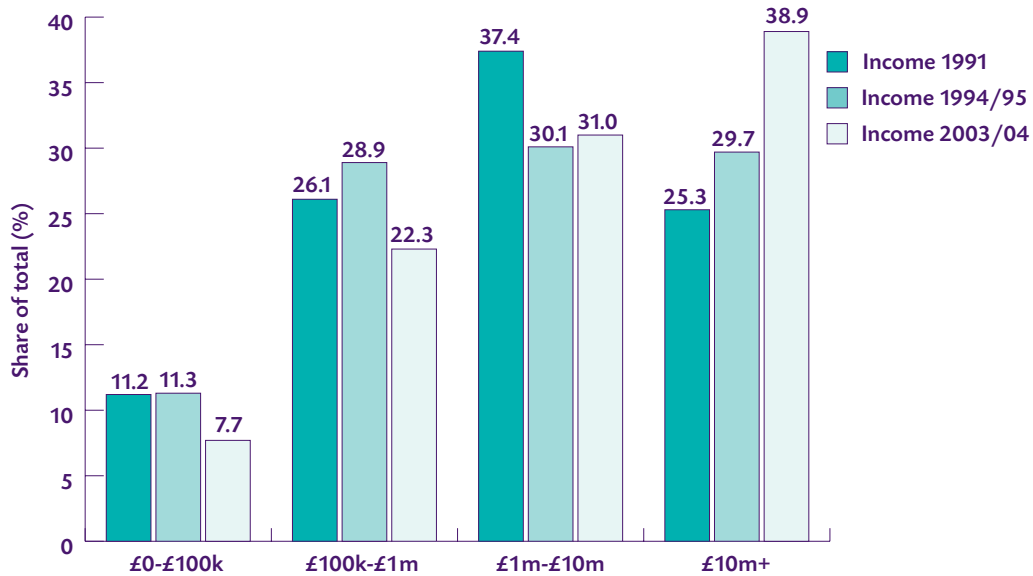
Figure 3: Percentage of organisations and share of income by size of organisation, 2003/04 (%)



Source: NCVO

Our evidence suggests that this concentration of resources is becoming more acute over time. Comparison with 1991 and 1994/95 suggests that organisations with incomes of over £10 million accounted for a much greater share of total income than previously. This was a result of rising average income, as well as an increasing number of organisations in this group. Compared with 1991, all remaining income bands saw their share of total income fall.

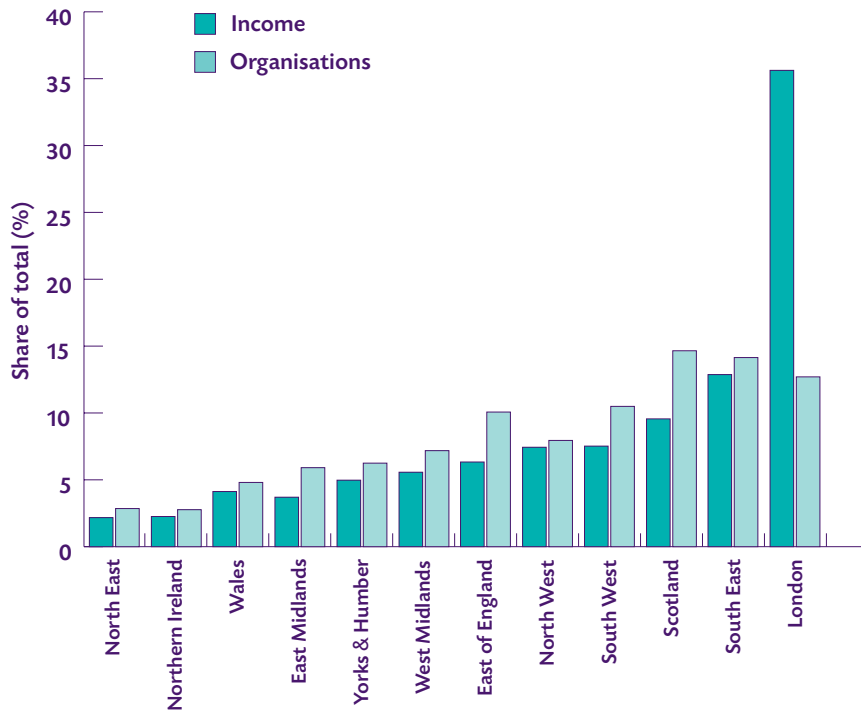
Figure 4: Distribution of the sector’s income by size of organisation, 1991-2003/04 (%)



Source: NCVO

The geographical distribution of this income is illustrated in Figure 5. Over three-quarters of UK general charities are based in England; however, they generate 85.8% of income (£22.6 billion). Over a third of the sector’s income is generated by charities based in London, despite the fact that only 13% of the UK’s charities are based there. This reflects the fact that many organisations with a national remit are located in London, as are many UK headquarters of international organisations.

Figure 5: Income and organisations by UK nation and region, 2003/04 (%)



Source: NCVO, NICVA, SCVO, WCVA

7.4 Sources and types of income

General charities generate income from a range of sources by undertaking a range of activities. Understanding the relationship between these sources and activities can help understand the changing dynamics of the voluntary sector economy.

Income is derived from a range of sources. These are primarily:

- individuals (excluding payments from charitable foundations set up by individuals)
- the public sector (government and its agencies in the UK, the European Union and overseas governments)
- the voluntary sector (such as trusts and grant-making foundations)
- the private sector (excluding payments from charitable foundations set up by businesses)
- internal (trading subsidiaries and the proceeds from investments).

Another way to categorise income is by type. They are primarily:

- voluntary income (income freely given, usually as a grant or donation, for which little or no benefit is received by the donor)
- earned income from the sales of goods and services (although this may not be at market value), including the gross income of trading subsidiaries
- internally generated income (the proceeds generated from investments and cash balances).

A typology of income sources and types is displayed in Table 7. Implementing this approach in the analysis of income is not without problems. In particular, the distinction between earned and voluntary income is open to interpretation. For a small proportion of income it has not been possible to identify the source.

Trading subsidiaries present a unique problem using this approach. It is clear that the activities (and resulting income) of trading subsidiaries are not restricted to non-primary purpose trading – customers are from all sectors of the economy. Nor do trading subsidiaries simply represent the activities of charity shops. Although the income generated by trading subsidiaries was predominantly earned, a significant minority reported the receipt of donations. Classification was further complicated by the covenanting of surpluses (though not always all profits) to the controlling charity – in essence, the charity is receiving a donation. This income has therefore been classified as internally generated (by a subsidiary company) and earned (which reflects the activities undertaken).

Table 7: Typology of income types and sources

		Type of income		
		Earned income	Voluntary income	Investment returns
Source of income	Individuals	Fees for services provided (e.g. residential home fees, tickets to events) Fees for goods (e.g. catalogue sales) Membership subscriptions with significant benefits	Individual donations (gross, including Gift Aid reclaimed) Covenants Legacies Membership subscriptions without significant benefits	
	Public sector	Public sector fees and payments for contracted services	Project grants Core funding grants Grants to charitable intermediaries Grants from National Lottery distributors	
	Voluntary sector	Services provided under contract (e.g. membership fees)	Grants from charitable trusts Grants distributed by charitable intermediaries	
	Private sector	Sponsorship Research or consultancy services Patent royalties	Corporate grants and gifts	
	Internally generated	Gross turnover of trading subsidiaries		Dividends Interest payments on securities Rent from investment property Bank and building society interest

7.5 Voluntary sector income streams

Using the approach outlined above, Table 8 illustrates the relative importance of different income streams in 2003/04. The key findings are:

- For the first time, the sector is earning more income (47.5%) than it receives in the form of grants and donations (44.9%). This is a significant switch in a sector for which voluntary income has, until now, always been the biggest single type of income.

- The public sector is the most important source of income, accounting for 38.1% of total income. Analysis suggests that for the first time, contract income from the public sector is worth more than grant income from the same source.
- Voluntary income from individual donors remains, narrowly, the single most important income stream (20.6% of total income in 2003/04).
- Investment returns now only account for 7.6% of total income.
- 5.4% of total income is received in the form of grants from other voluntary organisations.

Table 8: Income types and sources, 2003/04 (% of total)

		Type of income			
		Earned income	Voluntary income	Investment returns	Total
Source of income	Individuals	14.9	20.6	0.0	35.4
	Public sector	20.3	17.8	0.0	38.1
	Private sector	0.3	1.2	0.0	1.4
	Voluntary sector	4.5	5.4	0.0	9.8
	Internally generated	7.7	0.0	7.6	15.3
	Total	47.5	44.9	7.6	100

How is the balance between different income types and sources changing? A sense of change can be gleaned by using the same analysis for 2001/02. This is illustrated in Table 9. A number of differences are worth highlighting:

- The public sector was a more important source of income in 2003/04 than in 2002/01.
- The sector is shifting towards generating earned income, away from voluntary income – a trend observed since the early 1990s. For the first time, analysis shows that the sector now earns more income than it receives in donations and grants.
- The main reasons for this fall were decreases in the relative contribution of grants from the public and private sectors, which were not offset by the rise in donations from individuals

- Investment returns account for a smaller proportion of incoming resources. Over the longer term, it appears that the role of investment income reached a high point in the mid-1990s, when returns accounted for 20% of total income.

Table 9: Income types and sources, 2001/02 (% of total)

	Type of income			Total
	Earned income	Voluntary income	Investment returns	
Individuals	16.8	19.9	0.0	36.6
Public sector	17.7	19.5	0.0	37.0
Private sector	1.8	2.5	0.0	4.3
Voluntary sector	1.3	5.3	0.0	6.6
Internally generated	5.2	0.0	10.0	15.5
Total	42.9	47.1	10.0	100.0

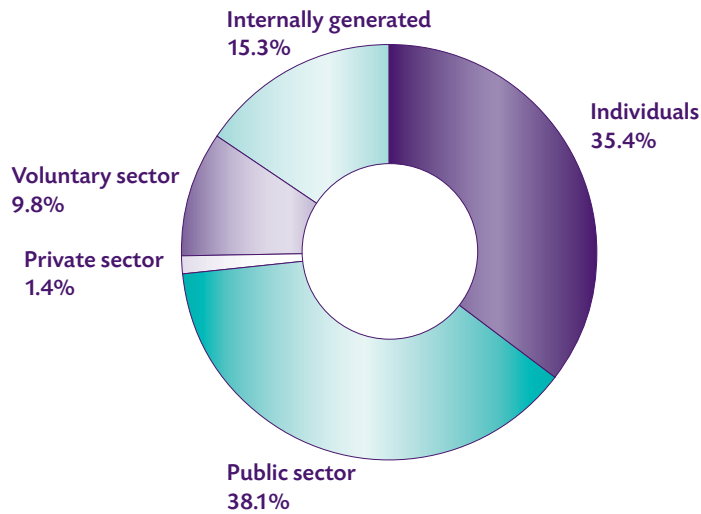
Source: NCVO, 2004

This move towards earned income and a greater reliance upon public sector sources is hardly surprising. Strategies for sustainability often emphasise the role of earned income, with organisations being encouraged to think about broadening their income mix and moving away from dependence on voluntary income. And central government policy continues to work towards increasing the level of voluntary sector activities in relation to the delivery of public services. Both these trends are emphasised by the long-term fall in investment income. The following sections examine these trends in more detail and illustrate how different parts of the sector are changing.

7.6 Sources of income, 2000/01 - 2003/04

The relative importance of different income sources is shown in Figure 6. Grants and contracts from the public sector amounted to 38.1% of total income – a little higher than the share of total income derived from individuals in fees and individual donations.

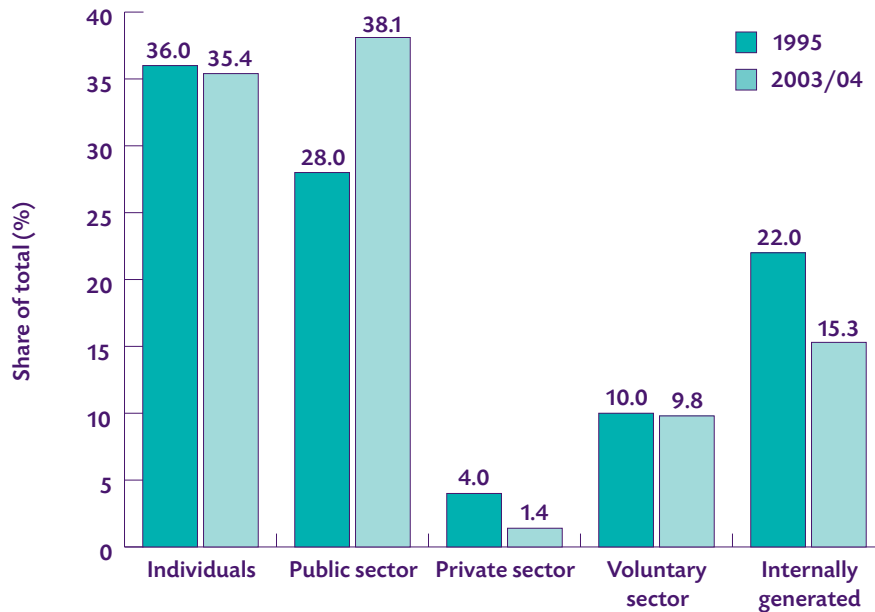
Figure 6: Sources of income, 2003/04 (%)



Source: Table 15

Significant changes in the income mix are evident over the period 1995-2003/04, and these are illustrated in Figure 7. The only income source to increase as a proportion of total income was the public sector. As a source of income, the public sector increased significantly over this period, from 28% to 38.1% of the sector's income, reflecting the government's recognition of the important role of the voluntary and community sector, as well as the increased contracting of public services.

Figure 7: Total income by source, 1995-2003/04 (%)



Source: Table 12; NCVO, 2004

All other sources of income decreased as proportions of the overall funding mix with the most significant drops being in internally generated (investment) income, and income from the private sector. This can be attributed to the direct and indirect impact of declining investment returns, and a tightening of resources, making organisations less willing to invest.

The fall in income from the private sector is more difficult to explain, though we are aware that the data in relation to corporate giving are likely to under-report payments. Increasing awareness of corporate social responsibility has, paradoxically, made it more difficult to track company giving. This is particularly due to the increased use of in kind donations from private corporations (employee volunteering, capital gifts, gifts of professional services).

The various sources of income are of different relative importance to organisations depending on their size. For example, the individuals represent an important source of income for all sizes of organisation, but they represent a progressively bigger proportion of income for larger organisations. For those with incomes over £10 million, individuals provide almost two-fifths of income, compared to only a quarter for the smallest organisations. This reflects the fact that larger organisations are able to use their brand status to attract donations from individuals.

Government funding – the challenge for the sector

Julia Unwin, Independent Consultant

Information produced for the NCVO Almanac always stimulates thinking and this year is no exception. The particular focus on increased funding from government raises a number of issues for the sector, which we must not ignore.

The first of these is about organisational resilience. Voluntary organisations, rightly, focus on ensuring that they can deliver their mission. But the figures in the Almanac suggest that, despite the growth, there is something else going on. Voluntary organisations are growing, and in some cases growing fast, but these organisations do not demonstrate business resilience to underpin the high level of activity. While we still lack reliable measures of resilience, organisations that continually dip into their reserves are, in the end, destroying themselves. They are able to be active today, but they are doing it from a base that is not in itself resilient and this is profoundly unsafe. The challenge for the next five years must be to develop business models that are resilient enough to cope with the highly volatile environment of the sector, and to do so in a way that continues to meet the mission.

The second concern arising from these figures is about that difficult word, contestability. Governments have said that they wish to encourage a range of organisations, and talk about the need for diversity and choice. And the sector itself is insistent that there is room for all sorts of shapes and sizes of organisation. And yet, the figures in the Almanac suggest quite strongly that actually only some organisations are thriving and growing. There must be a real risk that funding patterns that, in the words of the Grant Making Tango, focus on shopping alone may well result in a sector with only a few major superstores open for business.

And the third and final issue arising out of these figures is the question of independence. Organisations with a single source of funding, however committed they are to speaking up for the needs of the dispossessed people they serve, may feel constrained in doing so. That is why it is so significant that the Baring Foundation has just announced a new funding programme, designed specifically to help organisations develop both their legitimacy, and their capacity, so that they can act in truly independent ways.

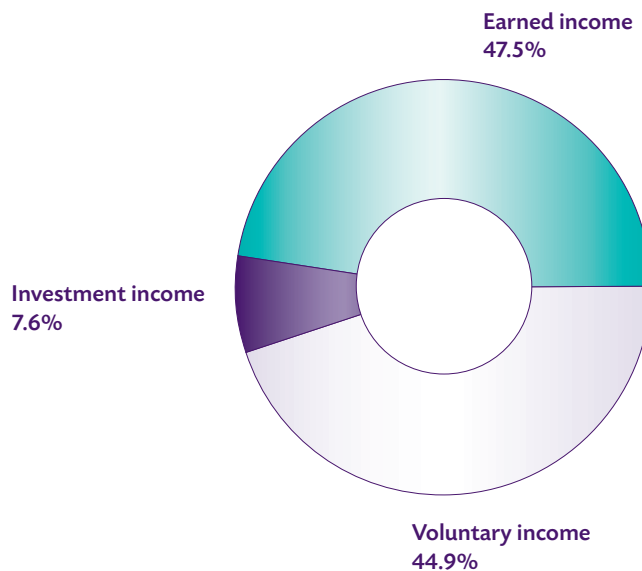
7.7 Types of income, 1995-2003/04

This section begins by summarising the three types of income. It is then followed by a more in-depth discussion of the different components in each income type. The relative importance of different types of income is shown in Figure 8. For the first time, earned income now represents the biggest single type of income for the sector. At 47.5% it contributes almost half of the sector's income and is worth £12.5 billion. This makes sense, given the fact that organisations are being encouraged to diversify their income and think about ways of making their income sustainable. It also reflects a strong government interest in the value of the sector, and an increase in the contracting out of public services. It should be noted that the earned income category includes income generated from some activities that might be classified as fundraising – elsewhere in the Almanac this is referred to as 'purchase giving'. For example, the purchase of a raffle or concert ticket is essentially the purchase of an opportunity to take part in an activity.

A slightly smaller proportion (44.9%) was made up of grants and donations. This represents £11.8 billion in 2003/04. This is the first time that voluntary income has represented a smaller proportion than earned income.

Finally, investment returns generated £1.9 billion, or 7.6% of total income, in 2003/04. Investment income does not include proceeds from the disposal of fixed assets (such as investments); these are discussed in Chapter 13.

Figure 8: Types of income, 2003/04 (%)



Source: Table 16

The balance between the different types of income changed between 1995 and 2003/04. Earned income assumed much greater importance, increasing from a third of the sector's income to almost half. This increase was largely driven by statutory income sources or, in other words, public service delivery.

Figure 9: Total income by type (%)



Source: Table 12, NCVO 2004

Voluntary income (including legacies) fell slightly between 1995 and 2003/04, as a proportion of overall income. Small and medium-sized charities bore the brunt of this fall, with larger charities – those with incomes of £1 million and above – managing to slightly increase their income from donations as a proportion of total income.

Investment returns also fell, from 20% of total income in 1995, to just 7.6% in 2003/04. The sector has traditionally relied upon such returns to fund its own activities, and the activities of individuals and organisations outside the sector. Although falls in investment income will disproportionately impact upon endowed trusts and foundations, changes in the relative mix need to be interpreted with care as these may be indicative of the greater role of the service delivery function of the sector in relation to the grant making foundations that rely on investment income.

How important are the different types of income to different sizes of organisation? The various types of income are of different relative importance to organisations depending on their size. Medium and large organisations benefit most from voluntary income: those with incomes between £100,000 and £1 million receive over half their income in the form of voluntary grants and donations. It is the biggest organisations however – those with incomes over £10 million – that benefit the most from legacies, with these organisations generating almost a tenth of their income in this way. This makes sense as it is usually the ‘big brand’ charities that are able to use their household name status to encourage people to leave a donation in their will.

Perhaps surprisingly, it is the very smallest organisations – those with incomes of less than £10,000 – that get the biggest share of their income from investments. This is mostly a result of interest on bank deposits, and represents almost a quarter of these organisations’ total income.

7.7.1 Earned income

Income is earned from a number of sources through the sale of products and services. For the smallest organisations, earned income might include membership subscriptions for which a benefit is received. For larger organisations, this might include payments for consultancy work or sponsorship from the private sector where the purchaser is buying the use of the charitable brand. Some of these transactions are characterised as ‘purchase giving’, as the full value of a service or product is not received. Finally, trading subsidiaries require separate analysis and are dealt with at the end of this section.

Social enterprise – a changing sector and the emergence of new organisations **Roger Spear, Senior Lecturer, Centre for Complexity and Change,** **The Open University**

It is important to distinguish between the ‘brand’ of social enterprise, and the conceptual framework. The UK is the only country in Europe to use the term in policy and development discourse, but there is now a move in some other countries to give it brand status. Becoming a brand in the UK fits with a number of political agendas. It fits with the ‘Third Way’, promising to combine social justice with economic dynamism. It also fits with political agendas to reform public services. Then there’s the political agenda to build the capacity and professional operation of the voluntary and community sector. However, using the social enterprise brand is not what every social economy organisation wants or knows how to do. And the larger institutional players in the field (charities, and development and representative structures such as co-ops, community business and social firms) are playing a more complex game involving identity and resources.

The conceptual framework of social enterprise, however, is used by researchers to describe what is happening in the social economy. There are two dimensions to this framework.

The first is the context for the sector as a whole, which is becoming more and more market-driven and business-like. Many public services are contracted out, resulting in a mixed economy with public, private and voluntary sector providers. Marketing and fundraising activities are becoming more business-like. Almanac figures continue to show that earned income, and specifically public sector contracts, are increasing. And numbers of paid staff in the sector continue to increase by an average of 10,000 per year. So it is perhaps no accident that the UK has adopted the brand. These contextual changes are shaping the way that existing organisations in the sector operate and face new challenges.

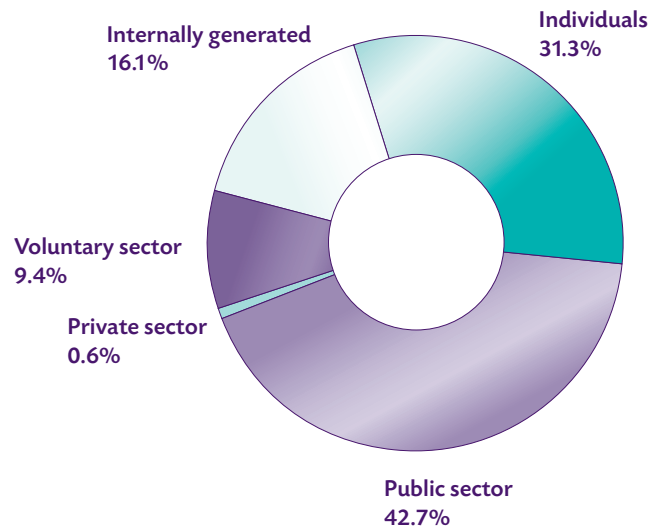
The second dimension is that *new organisations* are emerging that are operating in a more socially entrepreneurial manner. Some organisations, like leisure trusts, find that they can be more entrepreneurial when operating more autonomously outside a bureaucratic municipal structure. Similarly, some organisations are moving away from grant dependency to a situation where, though still partly dependent on subsidies, they are more entrepreneurial about using diverse income sources, in order to find new ways of serving their client base.

Adopting a social enterprise framework allows a different perspective on a range of contextual and organisational developments. It raises a number of issues, some of which are potentially problematic: isomorphism (with business organisations); ‘creaming’ (taking the easier clients) and other forms of opportunism; the extent to which advocacy is restricted or reshaped; and how different types of risk are managed and distributed.

But there are also advantages. Social entrepreneurship, social innovation, and the contribution to and use of social capital are just a few of the potential strengths of the social enterprise approach.

Sources of earned income are illustrated in Figure 10. The largest single source of the sector’s earned income (£5.3 billion) is the public sector, accounting for a fifth of the sector’s total income. Unlike in previous years, this use of public sector fee income is fairly evenly spread across the sector, with the smallest organisations receiving over a fifth of their income in this way.

Figure 10: Sources of earned income (including trading subsidiaries), 2003/04 (%)



Source: Table 11

Individuals and the public sector accounted for most of the sector’s fee income; other voluntary organisations and the private sector are marginal purchasers who accounted for the remainder.

In addition to earned income that is directly generated by general charities, income is generated by separate trading subsidiaries controlled by the parent charity. However, including trading subsidiaries in the analysis is not without problems as the reporting of trading subsidiaries in the parent charity’s accounts is frequently poor. Bearing in mind these limitations, our best estimate of the contribution of trading subsidiaries to total incoming resources is £2.02 billion, or 16.1% of the sector’s earned income, equivalent to 7.7% of total income.

7.7.2 Voluntary income

Grants, donations and gifts given without expectation of return (i.e. voluntary income) characterise the voluntary sector. A downturn in consumer spending continues to be the main threat to voluntary income streams, and voluntary income has now been overtaken by earned income as the sector’s main type of income, yet the sector has a real opportunity to lock in voluntary income by moving more individual donors to regular, tax-efficient methods of giving.

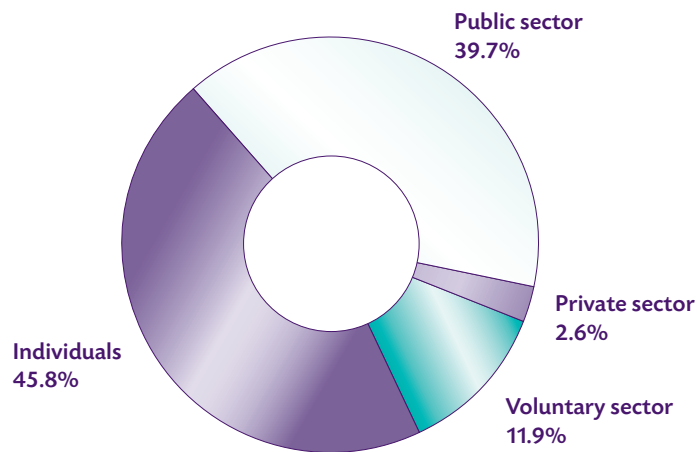
Yet donors are not the only source of voluntary income; the sector continues to generate this type of income from a range of sources. Excluding legacies, voluntary income was worth £10.4 billion to the sector in 2003/04. Legacies added a further £1.4 billion.

The general public continues to be a particularly important source of funding for charities of all sizes, from the smallest, who traditionally rely upon a local, known base of support, through to the largest general charities who often rely on high-profile fundraising campaigns and brand building to pull in donations. Voluntary income from the individuals, including legacies, is worth approximately £5.4 billion.

Voluntary income from public sector sources (including National Lottery funds) was worth £4.7 billion in 2003/04. Public sector grants were particularly important to mid-sized general charities with incomes between £100,000 and £1 million.

Grants from other voluntary organisations were worth £1.4 billion to general charities. This reflects the extent to which income is double-counted (i.e. income is being counted at the point at which it enters the sector, and at the point at which it is received by another voluntary organisation in the form of a grant).

Figure 11: Sources of voluntary income (including legacies), 2003/04 (%)



Source: Table 11

Finally, gifts and donations from the private sector were worth £310.9 million – 2.9% of voluntary income. Larger organisations appear to have a little more success in this area. Cash giving by the private sector is difficult to track, a situation not helped by the trend towards the establishment of charitable foundations by large businesses. Moreover, the increasing use of non-cash methods of support (such as gifts in kind) and broader forms of corporate social responsibility means that cash giving by businesses is not the entire story.

Philanthropic support for charities

Cathy Pharoah, Director of Research, Charities Aid Foundation

The current policy environment provides incentives for increasing both statutory funding and private donations to charities. So it is vital to monitor any changing balance in the income from these two different streams. Voluntary income is much less restricted than income from statutory sources. CAF has specialised in tracking trends in private donated ('voluntary') income to charities for over twenty years. Results are published in CAF's annual Charity Trends, which details company, individual and trust donations, and highlights the income of the major fundraising charities. CAF's focus on the fundraisers who depend heavily on voluntary income complements NCVO's review of financial trends across the broad spectrum of the sector.

Balance of voluntary and non-voluntary income

Charity Trends 2005 showed that amongst the 500 major fundraising charities, private donated funds still dominated resources, representing 54% of income in 2003/04 compared with around 41% from statutory sources.

Voluntary income growth amongst CAF's Top 500 ran at 2.9% in real terms for the year, having picked up after the economic slump of 2001/02. This compared well with the 3% growth in non-voluntary income.

The results for charitable trusts showed a mixed picture. Grant making levels amongst the general trusts were static in 2003/04: only the new inclusion of the Big Lottery Fund/New Opportunities Fund pushed up the totals. The lack of growth in grants probably resulted from low growth in asset values amongst trusts in the previous period. More happily, results for assets in 2003/04 show an overall real-terms increase of 6%. Hopefully this will be reflected in higher grant making levels in 2004/05.

Private donated income from companies provides significant support to some charities, and the worldwide community investment (WCI) of the top corporate donors showed a small but welcome growth of 3.4% in real terms in 2003/04, probably on the back of a good year for pre-tax profits. There was a rise in the number of companies giving over 1% of their pre-tax profits. Valued at £900 million last year, it included both cash and in kind support, one-third of which was contributed by GlaxoSmithKline. Five of the seven largest donors were banks or building societies.

Tax reliefs on donations

Tax-reliefs on donations from individuals are currently worth around £1.2 billion if inheritance tax-reliefs are included and constitute an enormous bonus on the sources of unrestricted income to charities. Currently only about one-third of donations are made

tax-efficiently, and CAF has estimated that a further third could easily be made tax-efficient if charities were more imaginative and proactive in their fundraising tactics. Gift Aid accounts for 90% of tax-efficient giving amongst today's donors, generating £625 million of tax paid back to charities in 2004/05, and £150 million of income tax relief to higher rate tax-payers. Individual donor support is the element of voluntary income most under charities' direct control: more effort to raise charities' game in relation to tax-efficient fundraising will be needed to achieve a significant growth in voluntary income.

7.7.3 Voluntary income from legacies

Income from legacies has traditionally been treated as a distinct form of voluntary income. Legacies form a substantial, albeit volatile, income stream, worth £1.4 billion to the sector in 2003/04. In terms of total value, and proportion of total income, legacies were disproportionately important to large general charities. Although charities with incomes of more than £10 million accounted for 38.8% of total income, they accounted for 70.9% of legacy income. This group was also particularly reliant upon legacies as a proportion of their total income (9.5%).

Table 10: Legacy income by size of organisation, 2003/04

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Total income from legacies (£million)	2.2	16.1	116	265.6	972.5	1,372.30
Legacies as a % of total income	0.7	0.9	2	3.3	9.5	5.2
Income band's share of total legacies (%)	0.2	1.2	8.5	19.4	70.9	0.2

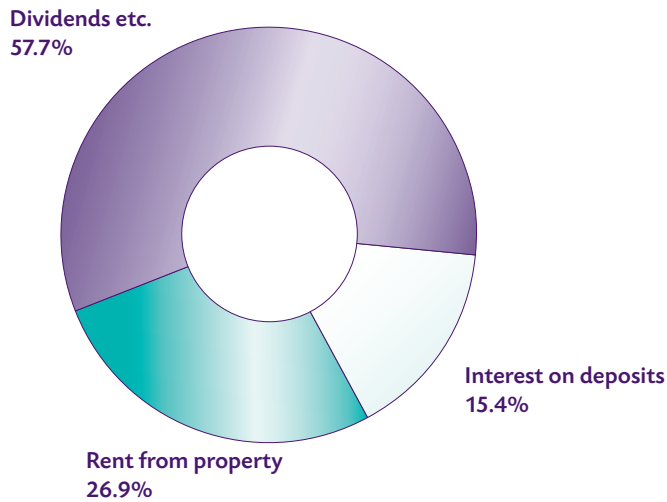
7.7.4 Investment income

This chapter has already highlighted the importance of investment returns to the voluntary sector and the small decline in both the proportion and total amount of this source. Investment returns accounted for 15.6% of total income in 1991 and 17.3% in 1994/95. In 2003/04 investments generated only 7.6% of the sector's total income.

Investment returns totalling £2 billion consisted mainly of dividends and similar returns on equities, securities and unit trusts. Such returns were worth £1.2 billion in 2003/04, or well over half of investment income (Figure 12). Smaller organisations are much more likely to generate investment from cash held in bank and building society accounts, and for the organisations with the lowest incomes this is the main type of investment income.

These organisations are relatively sensitive to changes in interest rates, because a larger proportion of their total income is generated from interest on deposits.

Figure 12: Sources of investment income, 2003/04 (%)



7.8 Conclusion

At first glance, the sector’s increasing income seems to be an indicator of healthy growth in the sector. But it is a reflection of an increase in the number of organisations, particularly in the higher income bands, rather than an increase in income for individual organisations. While there has been movement in individual organisations’ average incomes, these have been fairly small, and continue to follow the trend of recent years, which has seen large organisations doing relatively well compared to their smaller cousins.

But we are also witnessing a significant shift in the sector’s funding mix. Earned income has replaced voluntary income as the biggest income type, although grants and donations remain a significant and defining characteristic of the sector. This shift reflects changes in the sector that we have been witnessing for some time – organisations are thinking much more about how to diversify their income and make it sustainable. For many organisations this means reducing their dependency on donations and grants, and finding ways of earning their income. This has gone hand in hand with increased opportunities to bid for public service delivery contracts. As a result, we have seen the sector become more business-like, competing for contracts alongside private and public sector bodies.

7.9 Resources and further reading

Association of Charitable Foundations – information on grant-making organisations in the UK: www.acf.org.uk/

CAF (Charities Aid Foundation): CAF's website includes information on the top 500 fundraising charities and individual giving: www.cafonline.org/research/default.cfm

CAF (2005) *Charity trends 2005*. CaritasData
www.cafonline.org/research/default.cfm

Directory of Social Change. DSC publishes a number of books offering advice on funding sources and fundraising techniques: www.dsc.org.uk/

The Finance Hub: www.financehub.org.uk/

The Government Funding Portal. A pilot website detailing grants available to the voluntary and community sector from four government departments.
www.governmentfunding.org.uk/

The Johns Hopkins Comparative Nonprofit Sector Project. The project holds comparative data on income (and other resources) for 35 countries.
See www.jhu.edu/~cnp/

NCVO Sustainable Funding Project: www.ncvo-sfp.org.uk/

New Philanthropy Capital. A charity that specialises in research that advises donors and funders on how to give effectively: www.philanthropycapital.org/

Palmer, P. and Randall, A. (2001) *Financial management in the voluntary sector*. London: Routledge

Home Office Research, Development and Statistics Directorate (2004) *Central government funding of voluntary and community organisations, 1982/83 to 2001/2002*:
www.homeoffice.gov.uk/rds/voluntary1.html

Table 11: Total income by size of organisation, 2003/04 (£million)

Category	Under £10k	£10k- £100k	£100k- £1m	£1m- £10m	Over £10m	Total
Individuals	23.6	225.5	1,061.2	1,231.9	1,496.5	4,038.7
Public sector (inc NLDs)	28.8	271	1,329.7	1,502.9	1,558.8	4,691.2
Voluntary sector	8.6	81.4	399.2	451.2	468.0	1,408.3
Private sector	1.9	18.0	88.1	99.6	103.3	310.9
Total voluntary income (ex-legacies)	62.9	595.8	2,878.2	3,285.6	3,626.6	10,449.1
Legacies	2.2	16.1	116	265.6	972.5	1,372.3
Individuals	51.0	298.2	764.4	1,297.6	1,502.0	3,913.2
Public sector	69.4	406.4	1,041.7	1,768.3	2,046.9	5,332.6
Voluntary sector	15.3	89.3	228.9	388.5	449.7	1,171.7
Private sector	0.9	5.3	13.5	22.9	26.5	69.1
Total earned income (ex trading subsidiaries)	136.5	799.1	2,048.5	3,477.3	4,025.1	10,486.5
Rent from property	3.8	22.0	122.7	196.4	193.0	537.9
Dividends etc	24.5	100.1	237.2	208.8	583	1,153.7
Interest on deposits	42.1	50.0	86.4	69.5	59.2	307.2
Total investment income	70.4	172.1	446.3	474.7	835.2	1,998.7
Trading subs: gross income	26.2	153.6	393.8	668.5	773.8	2,015.9
Total incoming resources	298.2	1,736.6	5,882.8	8,171.7	10,233.2	26,322.6

Table 12: Income sources by size of organisation, 2003/04 (£million)

Category	Under £10k	£10k- £100k	£100k- £1m	£1m- £10m	Over £10m	Total
Individuals	76.7	539.7	1,941.7	2,795.1	3,971.0	9,324.2
Public sector (inc NLDs)	98.2	677.3	2,371.4	3,271.2	3,605.7	10,023.9
Private sector	2.8	23.2	101.6	122.5	129.8	379.9
Voluntary sector	23.9	170.6	628.1	839.7	917.7	2,580.0
Internal	96.6	325.7	840.1	1,143.2	1,609.0	4,014.6
Total	298.2	1,736.6	5,882.8	8,171.7	10,233.2	26,322.6

Table 13: Income types by size of organisation, 2003/04 (£million)

Category	Under £10k	£10k- £100k	£100k- £1m	£1m- £10m	Over £10m	Total
Voluntary income	65.1	611.8	2,994.30	3,551.2	4,599.1	11,821.5
Earned income	162.8	952.7	2,442.20	4,145.8	4,798.9	12,502.4
Return on investments	70.4	172.1	446.3	474.7	835.2	1,998.7
Total	298.2	1,736.6	5,882.8	8,171.7	10,233.2	26,322.6

Table 14: Total income by size of organisation, 2003/04 (% of total incoming resources)

Category	Under £10k	£10k- £100k	£100k- £1m	£1m- £10m	Over £10m	Total
Individuals	23.6	13.0	18.0	15.1	14.6	15.3
Public sector (inc NLDs)	9.7	15.6	22.6	18.4	15.2	17.8
Voluntary sector	2.9	4.7	6.8	5.5	4.6	5.4
Private sector	0.6	1.0	1.5	1.2	1.0	1.2
Total voluntary income (ex-legacies)	21.1	34.3	48.9	40.2	35.4	39.7
Legacies	0.7	0.9	2.0	3.3	9.5	5.2
Individuals	17.1	17.2	13.0	15.9	14.7	14.9
Public sector	23.3	23.4	17.7	21.6	20.0	20.3
Voluntary sector	5.1	5.1	3.9	4.8	4.4	4.5
Private sector	0.3	0.3	0.2	0.3	0.3	0.3
Total earned income (ex trading subsidiaries)	45.8	46.0	34.8	42.6	39.3	39.8
Rent from property	1.3	1.3	2.1	2.4	1.9	2.0
Dividends etc	8.2	5.8	4.0	2.6	5.7	4.4
Interest on deposits	14.1	2.9	1.5	0.9	0.6	1.2
Total investment income	23.6	9.9	7.6	5.8	8.2	7.6
Trading subsidiaries: gross income	8.8	8.8	6.7	8.2	7.6	7.7
Total incoming resources	100.0	100.0	100.0	100.0	100.0	100.0

Table 15: Income sources by size of organisation, 2003/04 (% of total incoming resources)

Category	Under £10k	£10k- £100k	£100k- £1m	£1m- £10m	Over £10m	Total
Individuals	25.7	31.1	33.0	34.2	38.8	35.4
Public sector (inc NLDs)	32.9	39.0	40.3	40.0	35.2	38.1
Private sector	0.9	1.3	1.7	1.5	1.3	1.4
Voluntary sector	8.0	9.8	10.7	10.3	9.0	9.8
Internal	32.4	18.8	14.3	14.0	15.7	15.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 16: Income types by size of organisation, 2003/04 (% of total incoming resources)

Category	Under £10k	£10k- £100k	£100k- £1m	£1m- £10m	Over £10m	Total
Voluntary income	21.8	35.2	50.9	43.5	44.9	44.9
Earned income	54.6	54.9	41.5	50.7	46.9	47.5
Return on investments	23.6	9.9	7.6	5.8	8.2	7.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

