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The UK Voluntary Sector Almanac 2004

5th Edition

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Foreword

I was delighted to be asked to write the foreword to NCVO's 2004 Almanac.

Since it was first published in 1996 it has proved to be an invaluable source of information on the voluntary and community sector for policy makers, politicians and within the sector itself.

Now, at the beginning of the 21st century, this information is more critical than ever before. The Almanac is helping to create a progressive and evidence-based approach to the evolving relationship between the voluntary sector and the public sector.

This is something I strongly support. As a government, we have demonstrated a real willingness to redefine the traditional boundaries between the two sectors, and to see partnership as the key to delivering on our commitment to the improvement of public services and the renewal of civil society.

We want to see a strong and effective voluntary sector thriving alongside the public sector, with the two fulfilling complementary roles. This lies at the very core of the Compact.

We understand that this requires a mature partnership between our sectors, one that is based on mutual trust. For us in central government this means having the strength to let go of the centralised policy making of the past, and embrace the wealth of knowledge, experience and ability that is to be found outside the public sector. For your part, it is essential that the voluntary and community sector welcomes the new opportunities that this brings to them and responds to the challenges it represents.

A great deal has been achieved already. I believe that the Compact, the Treasury's 2002 cross-cutting review and the *future*builders fund all demonstrate that this Government wants to form equal partnerships, in both principle and practice. We have a way to go, not least in the response of local government, but together we have made a promising start.

And so, this is a challenging time for both of us. We are entering an exciting new phase in our relationship, which has the ability to help us both deliver a shared vision of a more caring and cohesive society. And as we take forward our relationship, we must seek to base our work wherever possible on the sound evidence of what works best. I warmly welcome this publication as a means to help us do this.

RT HON PAUL BOATENG MP
CHIEF SECRETARY TO THE TREASURY

Sponsor's Foreword

We are delighted to sponsor the 2004 Almanac. The two areas, from an investment perspective, that stand out as issues faced by charities are the loss of capital and reduction in income.

In recent years charities have suffered declining and increasingly volatile investment returns. Trustees have found this particularly uncomfortable in light of their greater responsibilities under the Trustee Act 2000 and the requirement to record unrealised investment gains and losses, which the Charity SORP now imposes.

The consequence is a growing demand from charity trustees for alternative investment solutions. Increasingly, charities are seeking investments which provide a diversified, uncorrelated return to equities and bonds i.e. absolute return, so enabling improved overall portfolio performance and reduced risk.

While hedge funds have yet to be fully accepted as a mainstream investment in the UK charity world, acceptance is gathering some pace. This is evidenced by the strong demand for our Absolute Return Trust for Charities, (ARTC). This is the only common investment fund, authorised by the Charity Commission, which gives charities registered in England & Wales the opportunity to invest in a broad spread of hedge funds.

Although dividends have held up reasonably well over the last three years, charity investment income has been squeezed remorselessly as a result of the phased withdrawal of the ACT tax credit combined with falling interest rates. This decline in rates has resulted in the gross redemption yields on gilts falling to their lowest levels since the 1950s. Fortunately gilts have been providing good capital growth to offset some of this erosion but the improvement in the global economy suggests that interest rates will be rising for the foreseeable future, which is not a favourable background for gilts.

This income burden has caused many trustees to turn a blind eye to a more insidious erosion of capital. For this reason, some charities have turned to higher yielding equities to increase both income and the potential of capital gains. We have therefore launched an Equity Income Trust, again a CIF, which aims to achieve a 30% yield premium to the All Share index.

In the coming year, we expect further acceptance of alternative investments and higher yielding equities as an integral part of portfolio construction leading to diversified risk and increased income.

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NCVO Research Team
December 2003

1 Overview: the state of the sector

Introduction

The UK voluntary sector has been recognised as a substantial social force for many years. Its economic significance and contribution are also substantial. The statistics in this volume identify the sector as a major employer, provider of welfare services and purchaser of goods and services.

Despite an increasingly businesslike and entrepreneurial focus, the voluntary sector remains unique and distinctive. Voluntary action and private philanthropy – the giving of time and money – continue to benefit the many and varied organisations that make up the UK voluntary sector.

The economic characteristics of the UK voluntary sector

We estimate that there are 153,000 active ‘general charities’ in the UK. Although estimates of the number of voluntary and community organisations are much higher, almost all of the sector’s economic activity is captured within this group.

The key indicators of the sector’s size and economic contribution in 2001/02 were:

- total income of £20.8 billion;
- operating expenditure of £20.4 billion;
- assets totalling £70.1 billion;
- a workforce comprising 569,000 paid employees; and
- a contribution of £7.2 billion to UK Gross Domestic Product (GDP).

The sector has grown considerably

The sector is much larger than at the beginning of the 1990s. In 1991 there were an estimated 98,000 general charities with a combined expenditure of £11.2 billion. The number of general charities continues to increase each year.

Income growth has stalled

Total income was £20.8 billion in 2001/02. The long-run growth in income experienced throughout the 1990s may have stalled, albeit temporarily, following the millennium. In 2001/02 the sector’s total income fell by £429 million when compared with 2000/01. The largest charities – those with annual incomes of £1 million or more – experienced increases in income. However, average income for small and medium sized organisations fell.

Large organisations are doing well…

Large national organisations are doing relatively well, driven by a mixture of contract income from the public sector and voluntary income sustained by investment in fundraising. Large national organisations have been more able to build and sustain brands, achieve economies of scale and transact with central government bodies and their national agencies, backed up by an increasingly enforced national Compact.

…but small and medium sized organisations are not

Small and medium sized voluntary organisations are struggling. Income fell faster than expenditure and net funds declined as a result. There is substantial evidence that mid-sized organisations bore the brunt of the net fall in voluntary income. Small voluntary organisations appear not to have benefited from the increase in statutory resources flowing to the sector as a whole.

Resources are concentrated amongst the few

The sector's resource inputs are heavily concentrated amongst a small proportion of the sector. Two-thirds of the sector's income is shared by approximately 2,400 organisations. Evidence suggests that this concentration of resources is becoming more acute.

Statutory income sources have increased in importance

Income from statutory sources has increased in real terms and as a proportion of the total. Income from government agencies, including overseas agencies, was worth £7.7 billion in 2001/02, 37% of total income. Increases in statutory income were largely the result of more earned income, not grants.

Other income sources – the general public, the private sector, charitable trusts and foundations, self-generated income from investments – all fell. Where growth in income has occurred it has been driven by statutory sources.

The sector is becoming more entrepreneurial

Voluntary organisations are earning more of their income from selling goods and services. The sector earned £8.9 billion of its total income from fees for goods and services in 2001/02. However, the voluntary income (donations and grants) that uniquely characterises the sector was still worth more at £9.8 billion.

Charitable giving by the public is still widespread

Surveys of individual donors suggest that giving to charity is an activity still engaged in by over two-thirds of the adult population. Although the number of givers has fallen over the long term, a recovery in the average amount given has increased the overall value of individual donations. We estimate giving to charity (a broader definition than used elsewhere in the Almanac) was worth £7.3 billion in 2002, a sum boosted by the increasing use of tax-efficient methods.

Expenditure levels have remained stable

Despite the sector-wide fall in income, total current expenditure levels remained relatively stable at £20.4 billion in 2001/02. The sector spent an additional £1.7 billion on capital expenditure, although this fell over the same period. This suggests that the sector might be trying to ride out the fall in income by cutting back on investment in its physical infrastructure.

Not all organisations were able to maintain expenditure levels. Again, only the largest organisations saw increases in expenditure. The smaller organisations that saw income fall also saw expenditure fall. However, it is important to note that income fell more than expenditure; for the largest, expenditure increased more than income. These mismatches in resource flows can only have been funded from reserves or the increasing use of loan finance.

Small voluntary organisations spent more than they generated

The smallest voluntary organisations spent more than they earned. Those with an income of less than £100,000 on average spent 109% of their income. As we have already noted, this can only have been funded from reserves or loans.

Staff costs are driving expenditure

The voluntary sector spent £8.8 billion on staff costs in 2001/02, or 43% of its total current expenditure. Expenditure on staff costs is in turn a reflection of rising salaries and an expanding workforce. Salary levels in the voluntary sector remained below those in the public and private sectors in 2004.

The paid workforce is increasing in size

Although different sources give a slightly different picture, it is clear that the voluntary sector paid workforce continues to increase in number. Approximately 569,000 people were working in the voluntary sector in 2002, or 2% of the paid workforce. Almost two-thirds were part-time.

Skills shortages are a barrier to further growth

Voluntary organisations are reporting skills shortages in key areas such as management and business planning. One in two organisations reported difficulties recruiting in 2003, with many applicants lacking appropriate skills or qualifications.

Formal volunteering sustains small voluntary organisations

Paid staff are largely working for medium and large sized voluntary organisations. For the many small voluntary organisations that populate the sector, volunteers are the main (and even the only) resource. The Home Office Citizenship Survey estimates that in 2001 27% of the population had volunteered through a group, club or organisation at least once a month. 39% of the population had volunteered formally at least once in the last year.

Falling asset values have hit the sector's balance sheet

Overall, the sector's assets were worth £70.1 billion in 2001/02. Falling equity prices saw the value of the sector's investments fall to £41.1 billion in 2001/02, a 10.7% drop compared with the previous year. The sector experienced losses on the value of its assets of almost £3.5 billion in 2001/02, although these losses were mostly unrealised. Nevertheless, the fall in investment values fed through to a decline in investment income.

Increasing liabilities reflect greater use of loan finance

An increase in the sector's total liabilities may reflect the increasing use of loan finance by voluntary organisations. Although data for the smallest organisations were not available, we believe the sector had loans and overdrafts totalling almost £1.8 billion in 2001/02. Increasing availability and awareness and falling interest rates were likely drivers.

Net funds have fallen, but are still substantial

The sector's total net funds were worth £61.6 billion in 2001/02, an overall fall of £5.2 billion. This fall resulted largely from the fall in investment values, but it is clear that voluntary organisations were funding expenditure from reserves.

The voluntary sector contributes to the UK's wealth

Voluntary organisations directly contribute to the country's wealth by buying goods and services and employing paid staff. The Office for National Statistics have developed a measure of final current expenditure in order to express this contribution. This indicates that general charities contributed £7.2 billion to UK GDP in 2001/02. This figure does not include any assessment of the contribution of the unpaid volunteer and trustee workforce.

Looking ahead: uncertainty or optimism?

Whilst the sector as a whole has many reasons to be optimistic when looking ahead, small and mid-sized organisations face the future with less certainty. There are many causes of uncertainty: individual giving is closely related to individuals' self-perception of wealth, and any sudden correction in the housing market may impact negatively. Some income streams are expected to reduce further or stop altogether.

However, there are causes for optimism. A supportive political framework, high and continued levels of public trust, and recovery in investment values may sustain the sector through difficult times. But there are many challenges ahead. How the sector deals with these challenges – particularly independence and accountability – will shape its overall direction in the coming years.

2. About the Almanac

2.1 The fifth edition

This is the fifth edition of the *UK Voluntary Sector Almanac*, almost eight years since the Almanac was first published by NCVO. During this period the sector (and the context within which it operates) has changed significantly, although not beyond recognition. Increasing resource levels, a greater number of organisations and a massive expansion of partnership-based approaches have placed the sector firmly at the centre of strategies to renew communities and public services. In the foreword to the first Almanac Stuart Etherington argued that *'The UK voluntary sector has a vital role in the social and economic life of the nation'*. This, of course, has not changed. Nor have the overall aims of the Almanac:

- to provide a recognisable map of the voluntary sector economy, covering both small and large organisations, which should act as a reference tool for policy makers, researchers, and those working in the sector; and
- to provide, on a regular basis, the most up-to-date and reliable statistics on the whole of the voluntary sector.

2.2 Changes to the Almanac

Readers of previous Almanacs will notice a number of presentational and structural revisions to the current version. In response to comments on the last edition, we have striven to make the Almanac easier to read and use. We hope an increase in the number of tables and less text will make this edition more of a reference tool. For the first time, we have been able to analyse separately organisations with incomes of less than £10,000.

A focus on the UK nations has led to the omission of tables for the English regions. A significantly expanded regional analysis will instead be electronically published on NCVO's website. Publication deadlines and space have traditionally restricted our ability to answer the full range of questions in the Almanac. Now, the website will update and expand the core information and analysis presented in the paper Almanac.

For further analysis, updates and electronic resources visit
www.ncvo-vol.org.uk/almanac

2.3 The 2001/02 benchmark survey of general charities

In addition to changes in the presentation and structure of the Almanac, we have made a number of substantive changes 'under the bonnet'. We believe that these have led to more accurate estimates of the voluntary sector's resources and assets.

This Almanac reports the main findings of NCVO's 2001/02 benchmark survey of general charities, the first new, large-scale survey undertaken since 1994/95. Recent

Almanacs have relied upon a method developed in association with the Office for National Statistics to roll-forward ratios resulting from the 1994/95 survey.

We have also completely revised and reviewed our estimate of the number of organisations that meet the 'general charities' definition used in previous benchmark surveys. This has enabled the Almanac to reflect the changing organisational landscape and, in particular, the continued growth in the number of bodies with charitable status.

This has been a significant (and expensive) undertaking. A fifteen-month research programme, built around a core survey of approximately 3,300 charity annual reports, has enabled us to produce what we believe are particularly robust estimates.

For the first time, our survey methodology will enable us to publish headline estimates for all the English regions, later in 2004. In addition, we have utilised survey data collected by our sister councils in Scotland, Wales and Northern Ireland to ensure that our findings are representative of the voluntary sector across a devolved United Kingdom. Separate Almanacs for Northern Ireland, Scotland and Wales provide a greater level of detail.

In contrast to previous benchmark surveys, core financial data has been collected exclusively from charities' published, audited annual reports. We believe that this is the only feasible approach for a survey of this scale, detail and scope. Alternatives, such as long, unwieldy postal questionnaires, place an unacceptable burden of compliance upon already stretched organisations. Extraction and comparative analysis of data from charities' accounts is not without problems however, and the presentation of expenditure in particular is different to that in previous editions.

Improvements in charity accounting practices and the more widespread adoption of accounting rules known as SORP 2000 have led to some significant changes in the estimates. The impact of these changes is most noticeable in our estimate of the voluntary sector's total income. As a result, we believe it is misleading to compare the income estimates in this Almanac with those in previous editions. Nevertheless, we believe that this does not significantly detract from the utility of this publication.

Finally, the information in this edition again updates a rapidly changing picture. Although the data collection and analysis that underpins this Almanac was undertaken during May-October 2003, our data mostly relate to the financial year 2001/02. This represents the latest available data. We have also collected data for 2000/01 from the same annual reports. This provides us with a unique comparison for the two years: data for the same organisations, from the same source, essentially provide a panel for two years. Therefore, the comparisons between 2001/01 and 2001/02 are likely to be very accurate.

2.4 Structure of the Almanac

The Almanac proper begins with a short review of definitions (Chapter 3). A key characteristic of voluntary action is diversity, but this can obscure understanding of what we mean by the voluntary sector. This chapter therefore aims to distinguish what is meant by the voluntary sector in this publication, and in particular what is meant by our operating definition of 'general charities'. It also identifies organisations excluded from our analysis.

Chapter 4 summarises the main elements of the wider environment. Government policy towards the voluntary sector in particular has been a key driver of change in recent years, and this is the main focus of the chapter. It has already been noted that the institutional landscape of the voluntary sector is rapidly changing. Chapter 5 briefly reviews the scope and structure of the UK voluntary sector, and illustrates the recent increase in the known number of voluntary organisations.

Chapters 6 through to 9 provide the latest available information on the voluntary sector's income. Income is the most used and best understood measure of the sector's scale, although it is worth noting that expenditure is a better guide to changes in activity levels. Chapters on charitable giving by individuals and the National Lottery reflect the continued policy importance of these income streams. Charitable income in the UK is supplemented by the fiscal arrangements in place, and Chapter 9 assesses the value of these to the sector.

A defining characteristic of the voluntary sector is its focus and reliance upon people and their skills. Paid and unpaid staff are the focus of Chapters 10 and 11. The analysis of the voluntary sector's paid workforce uses information from the UK Labour Force Survey, which enables comparison with the public and private sectors. Estimates of volunteer resources are derived from the 2001 Home Office Citizenship Survey.

Chapter 12 covers the voluntary sector's expenditure. In addition to a review of total current expenditure and its components, estimates of capital expenditure are presented for the first time. Similarly, a discussion of assets, liabilities and funds available in Chapter 13 presents a much more detailed picture than in previous Almanacs. This includes a review of gains and losses on investment holdings, which are of some significance.

It has been a long-term goal of the Almanac research programme to produce information for key sub-sectors, and this will be taken forward in 2004. In the meantime, due to its strategic importance, Chapter 14 provides an overview of the Black and Minority Ethnic voluntary sector. However, it is still the case that the evidence base in relation to BME organisations requires further investment.

Outputs and outcomes are the subject of Chapter 15. A brief analysis of voluntary sector outputs, in particular the sector's contribution to GDP, are presented alongside current thinking on outcomes measurement. Outcomes measurement is very much on the future agenda for the voluntary sector and its stakeholders. Chapter 16, *Preparing for the future*, discusses how the future research agenda, including outcomes measurement, should respond to the issues and trends outlined in the Almanac.

Finally, appendices summarise the methodological issues raised by the research programme underpinning this publication. We hope that readers will find the glossary and list of abbreviations in this section useful. The resources and further reading at the end of each chapter can also be found on NCVO's website, www.ncvo-vol.org.uk/almanac

2.5 How to read tables and figures

Tables can be found throughout the text and at the end of some of the chapters for easy reference to detailed data. Where figures use data from tables in the Almanac, the table number is referenced accordingly.

Many of the tables illustrate trends in the voluntary sector using five groups of voluntary organisations, based upon their total annual income (sometimes called income bands). The five groups are:

- under £10,000
- £10,000 to £100,000
- £100,000 to £1 million
- £1 million to £10 million
- £10 million and over.

This can be seen in Example 1. Illustrating trends in this way shows the different challenges faced by voluntary organisations of different sizes. The number of general charities in each of these groups can be found in Chapter 5.

Example 1: Total income by size of organisation (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01	364.9	1,645.6	5,302.0	5,915.8	7,969.9	**21,198.2**
2001/02	286.6	1,549.6	4,914.3	6,006.7	8,012.4	**20,769.7**

The detailed tables at the back of some chapters break down trends by size or other relevant categories. The main categories are highlighted in bold, with any sub-categories in normal font. Many tables give row or column totals, which are also distinguished by their bold typeface. This is shown in Example 2. Total expenditure has been broken down into the five sizes of organisation and also by type of expenditure. Total grants, and cost of generating funds, have been further broken down into sub-categories.

Example 2: Breakdown of current expenditure by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Fundraising and publicity costs	5.8	46.9	209.2	337.9	702.6	**1302.4**
Trading subsidiary costs	0.1	0.4	97.4	263.7	508.3	**869.9**
Total cost of generating funds	**6.0**	**47.3**	**306.6**	**601.6**	**1,210.9**	**2,172.3**
Grants to individuals	15.6	24.4	58.3	50.6	126.9	**275.8**
Grants to the voluntary sector	68.9	203.1	601.6	607.1	584.4	**2,065.2**
Grants to the public sector	30.2	25.2	121.3	115.9	777.3	**1,069.8**
Grants to other institutions	0.0	3.6	2.5	12.4	0.1	**18.6**
Total grants	**114.7**	**256.3**	**783.6**	**786.0**	**1,488.8**	**3,429.4**
Charitable activities	**189.9**	**1,066.1**	**3,029.5**	**3,859.6**	**5,040.1**	**13,185.1**
Management & administration	**94.5**	**227.9**	**686.7**	**404.5**	**194.8**	**1,608.5**
Total current expenditure	**405.1**	**1,597.6**	**4,806.3**	**5,651.8**	**7,934.6**	**20,395.4**

Where tables are expressed as £million, some rounding of numbers has been necessary. The effect of rounding may mean that some totals differ from the exact sum of their sub-categories. Where figures have been expressed as £billion, one billion is taken to be 1,000 million.

2.6 Conclusion

We hope that the Almanac is a useful reference tool. As ever, we welcome comments and recommendations that will improve its content and usability. We look forward to hearing from you.

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3. What do we mean by the voluntary sector?

3.1 Introduction

Because of its remarkable diversity, defining the voluntary sector has never been easy. To add to the problem, the blurring of the boundaries between the public, private and voluntary spheres is making it harder to agree where the voluntary sector stops and other sectors begin. Throw in a few new organisational forms such as Community Interest Companies or social enterprises, statutory organisations with charitable-sounding names (such as Hospital Trusts), and a large amount of jargon, and it is little wonder that there is widespread public misunderstanding of the 'loose and baggy monster'.

Private Action, Public Benefit, published by the Prime Minister's Strategy Unit, used the term 'charities and the wider not-for-profit sector', and noted that:

> The charitable and wider not-for-profit sector is the collective term used in this report to describe charities, community groups, voluntary organisations, social enterprises and some mutual organisations. These organisations all pursue social aims and do not distribute assets to external stakeholders.

As yet, there is no universally agreed definition of the voluntary sector in the UK. But definitions matter, particularly if we are to describe (with any level of confidence) the number and economic contribution of this collective of organisations. Should we be discussing the *voluntary and community sector*? The term *voluntary sector* is itself often felt to be unsatisfactory, as numerous voluntary organisations do not depend upon volunteering. The community sector, it has been argued, is a separate set of entities, not to be confused with the voluntary sector. An alternative might be to stop talking about the voluntary or community sector, but alternatives such as *civil society* and *third sector* have so far failed to gain widespread acceptance.

This chapter does not offer a solution to this problem. Instead, it suggests that any number of different definitions are useful and appropriate in different economic, social and policy contexts. The different definitions and the organisations that meet them can be identified according to criteria such as independence, and these are set out in the following section.

These criteria inform and precede a short review of the most common (though not all) definitions in current use. The chapter closes with an operating definition of *general charities*, the definition used throughout much of the Almanac.

3.2 Defining criteria

The many definitions of the sector vary according to the type of groups and organisations that are included or excluded. Inclusion and exclusion depend primarily on a number of criteria that describe different aspects of an organisation: its aims, its way of working and its relationship with other organisations and institutions. Depending on the definition employed, organised voluntary action will meet several or all of the following criteria:

Formality

People and their activities have an organisational form to exhibit this attribute. The organisation may have a recognisable structure with a constitution or a formal set of rules. However, any definition using this attribute will exclude large numbers of informal, community-based activities and temporary forms of activity.

Independence

Organisations that are constitutionally and institutionally separate from the statutory and private sectors. This would exclude organisations that in National Accounts terms belong to 'general government', such as higher education establishments and registered charities which are also non-departmental public bodies (NDPBs) or quasi non-governmental organisations (quangos) (e.g. the British Council, the Arts Council and the British Museum). In the case of the Almanac, this criterion is responsible for excluding a significant number of large (over £10m income) registered charities.

Non-profit-distribution

Organisations that do not distribute profits to shareholders or owners. This criterion does not preclude undertaking activities such as trading to generate a profit or surplus. However, proceeds should not be for the personal benefit of any individuals connected with the organisation, and should be directed towards achieving the organisation's charitable objectives.

Self-governance

Organisations that are truly independent in determining their own course. This would exclude, for example, organisations that are charities within the National Health Service, on the basis that they are ultimately controlled by a statutory body.

Voluntarism

Organisations where there is a meaningful degree of voluntarism in terms of money or time. The donation of time includes that given by trustees.

Private benefit versus public benefit

Organisations that exist solely for the benefit of their own members (such as friendly societies or independent schools) are excluded. Under this criterion, a significant number of charitable, independent schools with incomes above £1m are excluded from the general charities definition.

Organisations that benefit the wider public are included. This may, however, include certain organisations that mainly benefit a specific group of people or even just their members. This would be the case when the objectives of the organisation provide a function that would otherwise need to be provided by the public sector, as is the case with disability associations or community transport.

Because of these criteria sacramental religious bodies and political parties are excluded. Whilst some consider that their activities are solely for the benefit of their members, others would argue that their doctrine and action have wider public benefit.

3.3 Key definitions

Table 1 shows how different combinations of the above criteria relate to six of the most commonly used definitions. The *general charities* definition is probably the narrowest, whereas *civil society* – commonly referred to as the space between the state and the market – is probably the broadest.

These key definitions are not uncontested or unconfused, and are often used interchangeably. The public are probably most familiar with *registered charities*, although strictly speaking charity in the UK is a status, not a sectoral definition. The term *charity* historically has carried negative connotations of paternalism and deference, and has led to the increasing use of *voluntary sector*. More recently, *voluntary and community sector* has gained a wider currency in public policy debates, although the two are often separated.

Non-profit sector (and its variant, *not-for-profit sector*) is widely used in North America, though it has yet to attain widespread use in the UK. Conceptually, use of non-profits suggests a closer heritage with the private sector and less reliance on voluntarism. The term social economy is widely used in Europe, where it is taken to include a wide range of mutuals and co-operatives. It is akin, though far from identical, to the identification of an emerging social enterprise sector in the UK.

Table 1: Definitions and criteria

	Formal	Independent	Non-profit	Self-governing	Voluntarism	Public benefit	Private benefit
General charities	(✓)	✓	✓	✓	✓	(✓)	(✓)
Charitable	✓	✓	✓	✓	✓	(✓)	✗
Voluntary and community sector	(✓)	✓	✓	✓	✓	✓	(✓)
Non-profit sector	✓	(✓)	✓	(✓)	✓	✓	✓
Social economy	✓	✓	(✓)	✓	✗	(✓)	✓
Civil society	✗	✓	✗	✓	✓	✓	✗

✔ Criteria predominantly satisfied (✔) Criteria to some extent satisfied
X Criteria not generally satisfied

The definitions are shown in the following table, alongside examples of their main organisational type and the purpose of the definition. As the list progresses the definitions broaden, civil society being the broadest with the least criteria satisfied.

Table 2: Definitions of the sector

	Definition and organisational type	Purpose
General charities	Same as registered charities except those considered part of the government apparatus (e.g. British Council), financial institutions considered to be part of the corporate sector, and organisations that deliver only private benefit.	Office for National Statistics definition used in National Accounts.
Charitable	Registered charities as well as 'exempt' charities that are not registered and are not subject to the supervisory jurisdiction of the Charity Commission (e.g. universities and friendly societies). Also includes 'excepted' charities, which have an annual income of under £1000 and no significant assets (they can choose to register if they wish do so).	Legally recognised as undertaking activities that satisfy the four heads of charity (relief of poverty, education, religion, and general charitable purposes) and are therefore eligible for preferential tax status.
Voluntary and community sector	Includes registered charities, as well as non-charitable non-profit organisations (e.g. Amnesty International), associations, self-help groups and community groups. Typically, organisations belonging to this group have a discernible public benefit and benefit from some aspect of voluntarism.	Predominantly for policy purposes recognising that a wider body of organisations than charities operate for public benefit. Used by the voluntary and community sector itself.
Non-profit	All non-profit organisations including those for private benefit, and those that are non-commercial (e.g. housing associations). Includes quangos and other organisations close to government including those specifically excluded from the general charities definition (e.g. universities).	International comparative – specifically the Johns Hopkins Comparative Non-profit Sector Project.
Social economy	Co-operatives and mutuals (and associations and foundations) that serve a social purpose and may be commercial. Some defintions also include social enterprise organisations.	European Union Directorate General XXIII, and most recently the focus of economic and labour market development programmes.
Civil society	All organisations operating in the space between the state and the market.	Promoting the participation of citizens in developing and implementing public policy, and determining their own economic and social well-being.

3.4 The general charities definition

The Almanac aims to describe the scope, structure and financing of the UK voluntary sector. However, in the absence of a single database of organisations that populate the voluntary sector, research effort must be based upon the public register of charities maintained by the Charity Commission, plus databases maintained by SCVO in Scotland and NICVA in Northern Ireland.

In striving to describe the characteristics of the UK voluntary sector, the Almanac has excluded a number of organisations with charitable status. As in previous Almanacs, use of the 'general charities' definition enables the exclusion of organisations that, under the criteria set out above, would not be considered part of the voluntary sector.

The general charities definition was developed for the first benchmark survey carried out by the Office for National Statistics in 1990/91. The original purpose of the general charities definition was to limit analysis to those organisations classified to the personal sector in UK National Accounts, thereby excluding organisations classified to government (such as quangos) or the private sector (such as industrial research organisations).

The general charities definition is not perfect. It does not include the smallest community-based organisations that are 'below the radar beam'. It arguably under-reports the breadth and economic weight of the sector that policy makers are so interested in. However, its continued use provides us with a consistent measure of what might be termed the core of the voluntary sector. Also, the clear limits to the definition enable the production of robust, clearly defined estimates for both numbers of organisations and their economic contribution.

3.4.1 The general charities definition in operation

For England and Wales, the register of charities maintained by the Charity Commission provides the list from which general charities are selected. The Charities Register in Scotland (CRIS) maintained by SCVO and the database maintained by NICVA in Northern Ireland provide similar source material. A process of removal, using fixed criteria for exclusion, produces the general charities population. Typical exclusions include:

- non-departmental public bodies or quangos (e.g. British Council, British Museum);
- educational establishments, including universities and voluntary-aided schools, which are recognised as 'exempt' or 'excepted' charities and are predominantly funded by government;
- NHS administered charities and private health care providers;
- financial institutions that are allocated to the corporate sector in National Accounts such as Charities Official Investment Fund (COIF);
- co-operatives, which distribute profits to their shareholders;
- mutual organisations such as friendly societies and building societies, housing associations, sports and social clubs, independent schools; and
- religious organisations, where the primary concern is the support and promotion of religion.

The definition includes local charities and the household name national charities such as Shelter, Save the Children Fund, ActionAid, RNID and RNIB. Although the criteria for inclusion have remained constant, the changing organisational landscape in the UK is reflected by the definition. The general charities definition therefore includes a number of large organisations that have gained charitable status in recent years, many of which were previously under the control of local authorities.

3.5 Conclusion

The problem of defining and branding the collection of entities termed by the Strategy Unit as 'charities and the broader not-for-profit sector' remains. The development of robust, operational definitions of the broader sector remains a goal for future research programmes.

One way forward may be the use of international definitions and criteria. Work by the Johns Hopkins Center for Civil Society Studies and the United Nations Statistics Division to develop definitions and criteria for comparative reporting of non-profit institutions is well under way. In the meantime, although not perfect, the general charities definition provides a framework for the generation of economic estimates, the focus of the Almanac.

3.6 Resources and further reading

Civicus (the international alliance for civil society) discussion paper on civil society in Europe. www.civicus.org/new/media/Europeancivilsociety.pdf

The Community Sector Coalition. www.bassac.org.uk/info_csc.htm

DTI (2002) *Social Enterprise: a strategy for success*
www.dti.gov.uk/socialenterprise

DTI (2003) *A Progress Report on Social Enterprise: a strategy for success*
www.dti.gov.uk/socialenterprise

European Commission – Social Economy enterprises website.
http://europa.eu.int/comm/enterprise/entrepreneurship/coop/index.htm

The Johns Hopkins Comparative Nonprofit Sector Project – a systematic effort to analyse the all aspects of the non-profit sector in a cross-section of countries.
www.jhu.edu/~cnp/

Kendall, J. and Knapp, M. (1996) *The Voluntary Sector in the UK.* Manchester: Manchester University Press.

Kendall, J. (2003) *The voluntary sector: comparative perspectives in the UK*. London: Routledge.

OECD Civil Society website –
www.oecd.org/document/0,2340,en_2649_201185_3207894_1_1_1_1,00.html

Prime Minister's Strategy Unit (2002) Private Action, Public Benefit: *A Review of Charities and the Wider Not-For-Profit Sector*.
www.number-10.gov.uk/su/voluntary/report/index.htm

Salamon, L. and Anheier, H. (1997) *Defining the nonprofit sector: a cross-national analysis*. Manchester: Manchester University Press.

Salamon, L., Sokolowski, W. and List, R. (2003) *Global Civil Society: An Overview.*
www.jhu.edu/~ccss/pubs/books/

Social Enterprise Coalition website: www.socialenterprise.org.uk

The UN Nonprofit Handbook Project: www.jhu.edu/~ccss/research/gnis.html

4. The operating environment

4.1 Introduction

This chapter provides a brief overview of the political, economic, social and technological environment in which the voluntary sector operates. Although it is possible to read and understand the trends described in the following chapters in isolation, this overview of the sector's operating environment sets out the context.

The chapter focuses on government policy, which is central to any analysis of the voluntary sector. Although it is often argued that much of the sector is untouched by the hand of the state, the policies and activities of the current Government have undoubtedly had a major impact on the sector and its direction. The second section looks at other factors within the external macro-environment that affect the sector.

4.2 The relationship with the Government

Any attempt to understand the size, scope and role of the voluntary and community sector must take into account the political context in which the sector operates and, in particular, the attitude of government towards the sector.

The last six years, since the election of the Labour Government in 1997, have been characterised by the emphasis that the Government has placed on the sector and the value that it attributes to working with the sector, at least in certain fields. This enthusiasm for working with the sector has been demonstrated in a variety of ways.

The first major step was the agreement of the Compact between the Government and the sector in November 1998. This spelt out very clearly the basis for an effective working relationship between the two sides. The Compact safeguards the sector's role and independence and also helps to ensure that the sector's integrity to campaign and advocate remains uncompromised, regardless of any financial or partnership arrangements existing between an organisation and government. Since 1998 the Compact has been backed up by five supporting codes (funding, consultation and policy appraisal, volunteering, community groups and black and minority ethnic groups). In addition, local compact guidelines have been published to help the development of compacts in every local area.

The Compact is not an end in itself. Its purpose is to improve the way the two sectors work together and in particular to provide the framework of partnership for the sector to deliver public services. The Government has argued that it does not simply see the sector as a potential contractor, but as a potential partner that can help it achieve its objectives of greater social cohesion and improved public services by helping to identify problems, devise solutions and implement those solutions. Indeed it has been argued that partnership was the watchword of the Labour Government's first term in office.

Whilst partnership continues to be important, the focus of the Government's second term has more explicitly been on service delivery. As a result there is some concern that, for all its talk of the value of the voluntary and community sector to civil society, in practice the Government primarily has a very instrumental approach to the sector: working with and supporting those that directly engage with public service delivery, with the result that those organisations that do not directly contribute to the government agenda can be excluded.

The much closer working relationship between parts of the voluntary and community sector and government is also visible in very practical ways. For example, it has become the norm for senior members of the Cabinet to speak at key voluntary sector conferences. Staff and trustees of voluntary and community organisations have become members of advisory groups or partnership boards (at national and local level), helping both to consider policy problems, devise policy solutions and oversee their implementation. Perhaps the biggest change is the extent to which voluntary and community sector staff have been seconded into government to help take forward the development of policy. The level of voluntary and community sector appointments and secondments within the Active Communities Directorate in the Home Office is perhaps to be expected (although even the extent to which this has happened has markedly increased, including the appointment of a Director from the Voluntary and Community Sector (VCS)). However, there have also been significant appointments in most key spending departments of government, and also in both the Cabinet Office and the Treasury.

4.3 Government reviews

In policy terms, since July 2001 the relationship between the Government and the voluntary sector has been driven by two major reviews undertaken by the Government:

- the Treasury's cross cutting review of the role of the voluntary and community sector in public service delivery: one of the seven cross cutting reviews informing the Spending Review 2002; and
- the review of the legal and regulatory framework governing charities and the wider not-for-profit sector undertaken by the Prime Minister's Strategy Unit, part of the Cabinet Office.

4.3.1 The Cross Cutting Review

The purpose of the Cross Cutting Review was to consider how the sector's role in the delivery of public services could be increased. It reviewed the extent to which voluntary and community organisations were already engaged in public service delivery, considered the scope for increasing the sector's role, identified possible barriers preventing or limiting the sector's engagement and considered what could be done to reduce or minimise those barriers. The Review was published in September 2002 and made 42 recommendations, which government, working with the sector, is now in the process of implementing.

Funding practices

One important area addressed by the recommendations related to funding and contracting practices. In particular, the issue of core costs has been a long-standing concern for the sector. The recognition by the Treasury that it is entirely legitimate for a voluntary or community organisation to include the relevant element of overhead costs – or perhaps, more accurately, that contracts should be costed on a full cost recovery basis – is therefore very welcome. Work is now being taken forward to build on the report published by the Association of Chief Executives of Voluntary Organisations (ACEVO), *Funding Our Future II,* to help Voluntary and Community Organisations (VCOs) to prepare funding bids on a full cost basis. Added to this, in August 2003 the Treasury published *Guidance to Funders.* The Guidance aims to make it easier for funders of the voluntary and community sector to understand the implications of government accounting rules. In particular it addresses recommendations of the Cross Cutting Review in relation to:

- payments in advance of expenditure;
- the balance of risk;
- the potential use of profile funding; and
- opportunities for moving to more stable funding relationships.

In October 2003 the Office of the Deputy Prime Minister published *Local Procurement Guidelines,* which is intended to improve contracting practice between local government and the private sector and the voluntary and community sector. It remains to be seen to what extent these government commitments will translate into actual practice, particularly at the local level. The Compact Advocacy Programme, based at NCVO, is monitoring known breaches by central government departments of the principle of full cost recovery.

futurebuilders

The Cross Cutting Review also identified a need to invest in the capacity of the sector if it is to be able to take on a greater role in public service delivery. Perhaps the most significant issue of capacity identified by the Review was the problems that VCOs, particularly small VCOs, faced in accessing investment capital (see also Chapter 13). For this reason the Government announced, as part of the Spending Review 2002, the creation of the £125m *future*builders fund.

The fund will be available from early 2004. It will invest in capital assets for the sector. Capital assets include physical assets such as building or equipment, and also intangible assets such as research, feasibility studies or the development of a business plan. The intention is that such funding should enable new organisations to enter the market to deliver particular public services, or for existing organisations to develop the scale or scope of their public service delivery work: *future*builders will not simply support existing activities.

Infrastructure

The Review also identified the importance of the sector's infrastructure organisations. These are organisations that play a supporting, co-ordinating or development role within the sector, such as Councils for Voluntary Service at a local level, or NCVO at the national level. Infrastructure also includes specialist organisations that provide support to those working with a particular community of interest, or in a particular policy or service area. It recommended that if the sector were to take on a greater role in public service delivery, then the sector's infrastructure would play a crucial role in helping develop capacity (the sector's knowledge, skills and expertise).

The Home Office Active Communities Directorate (ACD) has been tasked with developing, with the sector, an agreed strategy for VCS infrastructure, including proposals for investing an additional £80 million allocated in the Spending Review 2002 for the long-term benefit of the sector. The strategy is expected to be agreed by April 2004, with the majority of investment taking place over two years from April 2004 to March 2006.

4.3.2 Charity law reform

The Strategy Unit review of charities and the wider not-for-profit sector, *Private Action, Public Benefit,* was published in September 2002. Its recommendations, which were based on extensive discussion and consultation with the sector and others, were the subject of a three-month consultation period. The Home Office published their response and action plan in July 2003.

The report made 61 recommendations, which can be broadly summarised under four headings:

- Charity law reform
- New legal forms for charities and voluntary organisations
- Improved accountability and performance
- Improved charity regulation.

The heart of the Strategy Unit proposals relates to the reform of charity law. The aim of charity law reform is to ensure that public understanding of what is and is not charitable is increased and hence to maintain trust and confidence in charities. The proposals do not make any radical change to the definition of charity – which will continue to be based on but aim to clarify it and ensure that it is applied consistently to all organisations that benefit from charitable status. Primary legislation will be needed to implement these reforms, and although the Government announced its intention to publish a draft Charities Bill in the Queen's Speech in November 2003, a new Charities Act is unlikely to be in place before 2005.

The Strategy Unit also recommended the introduction of a new legal form, the Community Interest Company (CIC). This will combine the benefits of a corporate legal form, as opposed to charitable status, with protection of the assets and profits of a CIC for the community benefit. Legislation to introduce this new legal form is being taken forward separately by the Department of Trade and Industry, as part of their work to promote social enterprise, and may be in place during 2004.

The Strategy Unit also recognised that maintaining trust and confidence in the charity sector depends both on the external regulation of the sector and also the internal regulation, management and improvement procedures. External regulation of the sector is the responsibility of the Charity Commission. The Strategy Unit made a number of recommendations relating to the need to clarify the role and objectives of the Commission, which will be included in a Charities Bill. However the Charity Commission has already begun work with the sector on specific aspects of regulation – for example looking to improve annual reporting and accountability procedures, or the guidance governing political activities and campaigning – to improve the effectiveness of charities.

Issues such as performance management and performance improvement, the governance of the sector, and the regulation of fundraising are all considered primarily issues for self-regulation by the sector. Initiatives are already well under way in the sector to address these issues, with Government and the Charity Commission providing help and support where appropriate. However, these are all issues on which the Government has strong views and might move to regulate if it was concerned that the sector was not taking them seriously.

4.4 Implications for the sector

These major policy reviews, and the growing number of interactions between the sector and government, have all helped to change the nature of the relationship between the two. The change has been largely to the benefit of voluntary and community organisations and their members, users and beneficiaries. Resource flows into the sector from government sources have increased (Chapter 6). However, there are also risks that need to be properly understood and managed. A number of key themes are emerging that the sector needs to take into consideration, and which government needs to recognise when seeking to work with the sector.

4.4.1 Role and independence

The first issue that is regularly raised is that of the role of the sector, and the impact that the growing relationship with government can have on the sector's independence. As has already been mentioned, government can have a tendency to have a rather instrumental view of the sector, seeing it simply in the context of how it can directly contribute to its own policy agenda, and, more specifically, with regards to its role in public service delivery often in very restricted fields. Most of the additional resources targeted on the sector by government are to enable it to take on a greater public service delivery role. And government then argues that the sector needs to improve its mechanisms for performance management and demonstrating accountability because it is in receipt of public funding.

However, public service delivery is just one aspect of what the voluntary and community sector does. The primary role of the sector is to develop, support and sustain a civil society. Organisations achieve this in a variety of ways including by delivering public services, taking on a campaigning or advocacy role, providing advice and support to particular communities or through a combination of these roles. Some organisations perform their roles with little or no relationship with government, and are never likely to want to develop a closer relationship. It is important that we continue to recognise the breadth and diversity of the sector. Wherever possible government should be encouraged to recognise and support the multiplicity of roles performed by the sector and not simply support those of direct or immediate relevance to its priorities.

4.4.2 The role of social enterprise

As more public services are delivered by organisations outside the public sector, the distinctions among the public sector, voluntary sector and private sector service deliverers are becoming less defined. New legal forms such as Community Interest Companies contribute to this blurring. The Government is eager to promote social enterprise as a new way of delivering public services that marries the strengths of the VCS with the strengths of the private sector. However, there can be a tendency to think of social enterprises as particular types of organisations, and hence focus attention and support on a limited number of organisations, rather than as an activity carried out by many organisations, some of which will define themselves as social enterprises, but many of which will consider themselves to be part of the VCS. It will be important in the coming years that the widest understanding of social enterprise as an activity as well as a type of organisation is taken on board, both within the sector and across government.

Strategies for social enterprise

Barbara Phillips, Director, Social Enterprise Unit, Department of Trade and Industry.

Social enterprises are diverse, tackling a wide range of social and environmental issues and operating in all parts of the economy. Their common feature links them as businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. As such they include community enterprises, social firms, charities, and mutual organisations such as co-operatives.

Since the publication in July 2002 of the UK Government's three-year action plan, *Social Enterprise: a strategy for success*, the environment has been changing to better enable and support the growth of social enterprises. The Strategy sets out the Government's vision of dynamic and sustainable social enterprise, strengthening an inclusive and growing economy. It identifies the issues that directly contribute to the success of the sector, aiming to achieve three key outcomes – create an enabling environment for social enterprise, make social enterprises better businesses, and establish the value of social enterprise. Working in partnership, central government, Regional Development Agencies, local authorities, the Social Enterprise Coalition and other key stakeholders are beginning to address the barriers to the sector's growth and development.

Further work over the remaining years of the Strategy will continue to promote and sustain social enterprise activity across the UK. This will include research to improve the evidence base on social enterprise, enabling an accurate assessment of the contribution of the sector to the UK economy for the first time. Looking to the future, this will help bridge gaps in knowledge and understanding to further increase support and recognition of the economic, social and environmental achievements of successful social enterprises.

4.4.3 Accountability

There is a growing understanding of the importance to the sector of ensuring that it has in place effective mechanisms to demonstrate its accountability. VCOs need to be sure that they have strong and effective governance structures in place, that they are considering how to improve and manage their performance and that they operate sound accounting and reporting practices. Funders often require effective and transparent accountability mechanisms, and public sector funders are increasingly concerned with audit and accountability. In addition, the public have increasingly high expectations of those from whom they obtain services, advice or support.

However the pressure to improve the sector's accountability does not solely come from external funders, and we should not allow external pressures to dictate how sector organisations are managed. These are all issues that matter to the sector. VCOs need to be able to demonstrate to their own users, members and beneficiaries what they do and how they do it. The driving force for improved accountability is, and should be, internal. Governance, performance management and accountability systems should first and foremost meet the needs of the organisation and its users, beneficiaries and supporters. We need to ensure that the audit and accountability requirements of external funders and government are proportionate, relevant and do not create perverse incentives for the way that organisations operate, and do not divert organisations from their primary objectives and primary stakeholders.

4.4.4 Local implementation

One theme that repeatedly emerges in any discussion of government reviews, and of the relationship between the sector and government, is the need to ensure effective local implementation. Over the past six years local government has been the subject of far more extensive central government review and reform than has been the voluntary sector. There have been two local government Acts, introducing the Best Value regime, clearer responsibilities for community leadership and community planning (including Local Strategic Partnerships (LSPs)) and most recently Comprehensive Performance Assessments. Central government has made clear that it expects local government to develop more effective working practices with the voluntary sector, through Best Value, LSPs and the development of local compacts. There is a recognition that the welcome recommendations of the Cross Cutting Review will mean little if there is not full local implementation. However there are few mechanisms for central government to require compliance from local government. The drive towards increased local accountability and decision-making inevitably means that central government is limiting the areas in which it will control or dictate practices.

One feature that local government shares with the VCS is that it is not possible to talk about it as a single sector with a single approach. Some local authorities have developed extremely effective working relationships with their local VCS, others have put steps in place to start a process, but others have shown little or no interest in working with local VCOs. The sector needs to work with local government to help them understand the benefits of working together. It will be the way that this relationship develops in the next few years that will really determine the impact that central government objectives and programmes in relation to the VCS actually have in practice.

4.4.5 The Compact

Which perhaps leads us inevitably back to the Compact. The Compact has been in place now for over five years. It has always been clear that it is a process and not an end in itself. However, it does need to be seen to make a difference. To that end the Compact Advocacy Programme has been set up in the last year to follow up breaches of the Compact by central government departments and seek to resolve them. As part of the Cross Cutting Review, the Government indicated its ongoing commitment to full implementation of the Compact across the whole of government. It is important that all government departments and not just the Home Office and the Treasury buy into it. But, effective implementation also depends upon VCOs believing that it has a value, supporting it and making use of it.

4.5 The policy context in Scotland

UK Government policy has a key influence on the current agenda for the Scottish voluntary sector, in particular through the charity and social economy reviews.

Six years ago the Kemp Commission on the Future of the Voluntary Sector in Scotland recommended the establishment of a charity register, the routine monitoring of charity accounts, and the redefinition of 'charity' based on the concept of public benefit. In September 2003 the Minister for Communities announced that the Office of the Scottish Charities Regulator (OSCR) would be established as an independent statutory body with an enhanced range of powers, and that a draft Charities Bill for Scotland would go out to consultation in spring 2004. One of the areas of debate will be to what extent the Scottish definition of charity, based on the principle of public benefit, will fit in with the definition of public benefit based on case law proposed by the Home Office.

Another area of shared interest will be the strengthening of the social economy in terms of its role in delivering public services. In Scotland the social economy is taken to mean the economic dimension of the voluntary sector. The focus of the consultation on the social economy review is much broader than that of programmes supporting the growth of social enterprises. Running in parallel is the strategic funding review, which, among other issues, is interested in strengthening the asset base of the sector and addressing its low uptake of loans.

A European-funded programme, ‘EQUAL Theme D’, aimed at strengthening the social economy in Scotland, is piloting and mainstreaming a number of innovative approaches to building the social economy’s sustainability. Supporting the social economy to engage in the procurement of public service contracts is a key element of this work, with a Scottish Procurement Toolkit due for launch and dissemination during 2004.

4.6 The policy context in Wales

Devolution in Wales has meant more access to the policy making process and to decision-makers for the voluntary sector in Wales. There is an emphasis on making the Assembly’s processes and structure accessible and transparent. Voluntary organisations have good access to Assembly members and are regularly invited to give evidence to Assembly committees. The sector is engaged in Assembly Government policy development in a number of areas, through participation in a wide range of working groups and advisory groups.

Most notably, the Government of Wales Act 1999 gives the Assembly a statutory duty to establish a scheme to promote the interests of the voluntary sector. The Voluntary Sector Scheme sets out the Assembly’s commitment to:

- Partnership working and consultation
- Promoting volunteering and community development
- Regular dialogue at a national level through bi-annual Ministerial meetings and the Voluntary Sector Partnership Council
- A funding Code of Practice.

Wales is the only country in the UK where there is a statutory obligation to promote and support the voluntary sector. This has been warmly welcomed by the sector and annual reports show increasingly positive outcomes.

Under the Government of Wales Act of 1999, the Assembly Government must consider whether the Scheme should be remade or revised after each election. The Assembly Government has established an independent Commission to review the Scheme and any revisions or even an entirely new Scheme will be finalised by the 2004 summer recess.

The outcome of the review will have a significant impact on the policy environment for the voluntary sector in the second Assembly term.

The Assembly elections in May 2003 also brought a new Welsh Assembly Government. The Welsh Labour Party gained exactly half of the seats and with a Presiding Officer from Plaid Cymru, Labour has a majority of just one seat in the chamber. First Minister, Rhodri Morgan, has decided this is sufficient to abandon the previous Lib-Lab Coalition and establish a Labour Assembly Government.

The new Assembly Government's four-year strategic plan, *Wales: A Better Country,* acknowledges that the Assembly Government cannot achieve anything on its own. It sets out its vision of an open government, partnership working and the involvement of the voluntary sector in the planning, delivering and monitoring of public services. Much will now depend on whether the Assembly Government is prepared to build the capacity of the sector in order to achieve this vision.

Whilst devolution has had a significant impact, decision-making in Whitehall is still crucial to the sector in Wales. The National Assembly only has secondary legislative power. The Richard Commission has been established to review the powers of the Assembly (which are highly complicated) and its recommendations will be significant. Currently, a key challenge for the sector in Wales is to ensure that it is able to influence decision-making effectively at a UK level. Similarly, policy development and implementation at a European level is playing an increasingly important role and the voluntary sector is actively involved in influencing decision-making in Brussels. The future of European structural funding post 2006 will be particularly important, as Wales has benefited significantly from this. Developing sustainable funding strategies for post-2006 will also be critical for the sector in Wales.

4.7 The policy context in Northern Ireland

It is clichéd, but nonetheless true, to say that over the past 35 years, the voluntary and community sector has provided a large measure of the glue that has held Northern Ireland society together. However, over the past 12 months the sector in Northern Ireland has had to operate under the shadow of a suspension of devolution. This has caused great uncertainty in many of the policy areas in which voluntary and community organisations operate.

Nevertheless, work has continued within the policy environment and perhaps the single most important development has been the establishment in 2003 of 'The Task Force on the Resourcing the Voluntary and Community Sector'. The Task Force aims to produce a report on measures to be taken to ensure continual contribution of the sector in the achievement of government objectives. Key areas of deliberation are issues of sustainability, voluntary and community sector infrastructure, government support and funding of the sector, and accountability and organisational systems of governance.

European funding still remains at the fore and, in response to *A Modern Regional*

Policy for the United Kingdom, the sector has called for the UK and Irish governments to seek agreement for a third peace programme with the European Union.

As a result of the Cabinet Office Strategy Unit's consultation on charity law, the Department for Social Development is currently reviewing the antiquated Northern Ireland Charity legislation.

In the wider policy sphere the *Review of Public Administration in Northern Ireland* will have far-reaching effects on the nature of public service delivery, in particular how the voluntary and community sector interact within these new structures in the future. Also *New Targeting Social Need*, an initiative designed to tackle community differentials in terms of employment, is under review, which it is hoped will become a fully-fledged anti-poverty strategy for Northern Ireland. Finally, one of the most fundamentally important consultations to be held in Northern Ireland has been *A Shared Future.* This document attempts to set out a framework, which hopes to provide a basis from which sectarianism and the multifarious ways it affects every walk of life in Northern Ireland can be tackled.

4.8 Other influential factors

The substantive portion of this chapter has concentrated on the relationship between the voluntary sector and the state. This is intentional – government policy is arguably defining the external environment for the sector as a whole. However, other drivers need to be taken into consideration, and the remainder of this chapter draws upon NCVO's voluntary sector strategic analysis.

4.8.1 Demographic trends

The ageing population is placing more demands upon health, social services and social security arrangements. In the UK, people aged 60 or over now outnumber those aged under 16. European countries are beginning to face a severe pensions problem as organisations and government struggle to fund their liabilities.

Immigration can contribute towards a solution. The UN Population Division estimated in 2002 that the EU requires an inflow of three million migrants a year to maintain the current support ratio of people in employment to those needing support (i.e. those aged 15-64 and those aged 65 and over). This is approximately double the combined legal and illegal annual flows into Europe. However, the immigration debate in the UK remains negative in tone and untethered to economic need.

The structure of the population is also changing. The rise in one-person household and the growing diversity and impermanence of family structures are leading to a more fragmented and complex society where reliance on service provision (e.g. counselling) rather than traditional support mechanisms (e.g. family ties) is likely to further increase. Geographical and professional mobility are on the rise, especially amongst young people. The 'job for life' has certainly vanished with the development of flexible employment practices and short-term contracts. The consequences of greater mobility are felt at many different levels in society. Geographical mobility, which includes migration, has certainly led to greater diversity. It has equally changed patterns in community participation with more people engaging in communities of interest than in communities of place.

The implications for voluntary organisations are clear. The sector is already providing services more traditionally provided by the state. Opening up opportunities to groups whose activity rates are lower than they might be (women, disabled, over-50s and over-60s), fighting ageism and attracting older workers offer advantages in terms of building social and human capital. As signs of social tension and extremism continue, bridging between different communities of interest remains a functionally important characteristic of voluntary action.

4.8.2 Social attitudes and values

Notions of trust and confidence remain central to any discussion of social attitudes and values. For the voluntary sector, the interfaces between trust, public services and regulation will be crucial in the coming years.

Sociologists have for some time pointed to an emphasis on the individual rather than society. Personal and working relationships are seen in terms of personal fulfilment, and less in terms of social obligations and responsibilities. Mass consumption and customisation have changed people's attitudes to the goods and services they can access. Excessive choice has encouraged a certain fickleness and a drop in brand/product loyalty. In the voluntary sector, the retention of donors and volunteers has become more difficult.

Evidence suggests that increasing levels of affluence are not making individuals any happier. This is equally reflected in the growing interest in issues such as work-life balance, 'experiences' instead of consumer goods, and ethical products (fair-trade, organic food, socially responsible investments, etc). Voluntary action will need to tap into these emerging trends. At the same time, there is a growing feeling of vulnerability and insecurity as negative attitudes towards crime and immigration show. As signs of social tension and extremism continue, bridging between different communities will remain an important function of voluntary action.

Distrust of outsiders is increasingly apparent in public attitudes towards asylum seekers, and the limited electoral success of the British National Party (BNP). The war with Iraq and the Hutton inquiry have damaged the political reputation of the Government. The perception that the Government has been untrustworthy over the war has clouded judgement on its ability to improve the economy and public services. According to a MORI survey published in July 2003, only a third (32%) believe that government policies will improve the state of Britain's economy, and just over a quarter (28%) believe that they will improve public services, down from 54% in 2001.

For the voluntary sector, the increase of consumerist attitudes will shape donor behaviour. As a wealthier population has more options for how leisure time and disposable income are spent, voluntary action will need to tap into the 'experience economy'. The mantras of choice and customisation might benefit those voluntary organisations that bring pluralism and personalisation to service provision. More worryingly, the public's lack of interest in social issues that are associated to the perceived causes of social/financial insecurity may limit funding opportunities for some parts of the sector.

4.8.3 Technology and communications

Voluntary organisations are affected by changes in technology in the same way as private sector organisations. Voluntary organisations also mediate technological change by working towards a more inclusive information society through increased participation in and understanding of new technologies.

Effective use of information and communication technology (ICT) should enable organisations to reach more end users, customers and beneficiaries more cost effectively, and indeed, over the past few years there has been a significant increase in the sector's access to ICT. Nevertheless, there remains a significant amount of untapped potential in this area and skills gaps relating to ICT appear to persist. An ICT strategy will therefore be a core element of the post-Cross Cutting Review infrastructure support.

Increased familiarity with web-based information is creating a culture where access to information is expected. The standardisation of information and the ease with which data can be interchanged is likely to facilitate accountability. One manifestation of this is GuideStar UK, which will provide a comprehensive, web-based information system for the voluntary sector.

ICT still presents major challenges for the sector, and the drive of many organisations to shift more transactions onto the Internet will potentially exclude those individuals (and organisations) who struggle to access services. However, the potential benefits of broadening access to ICTs are enormous.

4.8.4 The economic context

Concerns about the performance of the global economy remain relevant at the time of writing. It has been argued that the biggest threat to the world economy is a deflationary spiral: too little money chasing too many goods and services.

After a weak start in 2003, the Bank of England has predicted that economic growth in the UK will pick up in the second half of the year. However, the Bank remains cautious, citing uncertain global recovery, the strength of consumer spending and house prices (both reinforcing consumer debt) as potential threats to the economy. The key challenge for many voluntary organisations is to ride out the uncertainty caused by the unprecedented three-year slump in investment markets, volatile consumer confidence and the continuingly problematic distribution of resources from central to local government.

The fall in the stock market has an impact on not only the organisations holding the investments but equally those receiving grants from investment holders. However, the decline in the equities market is likely to affect mostly the asset value of a relatively small number of charitable foundations, should they choose to sell their investments. In the last recession charities were cautious and decided not to.

The UK has arguably moved into a period of relatively low interest rates and low inflation. Unemployment remains low and stable. Although low interest rates have staved off a recession in the UK, the direct impact on the voluntary sector has been to reduce income from cash deposits as the voluntary sector is a net saver. At the time of writing, an increase in interest rates is argued to be the start of an upward trend.

Higher borrowing by individuals and government are attracting concern. Personal debt hit a record of £9.5 billion in October 2003. Mortgage equity withdrawal as a proportion of personal disposable income is now back to the historically high peak reached during the housing boom of the 1980s. However, consumer spending is decidedly lower than in 2002, particularly discretionary spending. Further tax increases will reduce this further, while falling asset prices – and the long-mooted house price crash – could dent confidence. Economic uncertainty will undoubtedly encourage people to manage their resources more carefully, which may result in lower propensities to donate.

Government borrowing has also continued to rise, raising concerns that the Chancellor will break the ‘golden rule’ of only borrowing to fund investment over the economic cycle. A number of analysts have presented the future course of action as one of stark options: higher taxes or lower spending. This is of course a matter of potential concern to a voluntary sector that is relying more heavily upon statutory income. An additional concern is a significant rise in the number of new government-funded jobs (including over 60,000 in the health service). Competition for skilled staff remains fierce, whilst large increases in public sector pay are undoubtedly driving up employment costs for voluntary sector employers.

4.9 Conclusion

Government policy in relation to voluntary action aims to create a favourable working environment for the UK voluntary sector, particularly where organisations can help to deliver key policy aims on public services. However, it could be argued that government policies to create a favourable macro economic environment are just as important to the sector. Both are undoubtedly important and are already shaping the voluntary sector economy: income from government and its agencies has increased; the value of investment holdings has fallen dramatically; wage inflation has increased.

Although the operating environment remains tough, the sector has attained a step-change in prominence and resourcing over the last decade. Maintaining this expanded role will require attention to many of the issues outlined in this chapter, whether independence and accountability, or public trust and confidence. Some parts of the sector will succeed, others will not. An awareness and understanding of the issues above will be integral if the sector as a whole is to succeed.

4.10 Resources and further reading

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HM Treasury – Guidance to Funders.
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5. Scope and structure of the voluntary sector

Highlights

- In 2001/02 there were almost 153,000 general charities in the UK.
- This is an increase of almost 33,000 compared with 1994/95.
- Three-quarters of general charities are based in England.

5.1 Introduction

The general charities definition introduced in Chapter 3 represents the core of the broader voluntary and community sector. An accurate estimate of the number of general charities is the basis for much of the analysis in the Almanac, as without an accurate population it is not possible to produce sector-wide estimates of income and other financial variables.

This chapter briefly summarises the distribution and total number of general charities in the UK. It also includes a brief analysis of the growth in the number of general charities, and in England and Wales, how this relates to the growth in registered charities.

5.2 General charities: total numbers

Thanks to the work of the Charity Commission in maintaining a register of charities, it is a relatively straightforward exercise to estimate the population of general charities in England and Wales. Estimates for Scotland and Northern Ireland are based upon databases maintained by SCVO and NICVA.

At the beginning of 2002 there were 152,696 active general charities in the UK.[1] This is a significant increase on previous estimates of 120,000 in 1994/95 and 98,000 in 1990/91. The increase represents a real expansion in the number of general charities though, inevitably, improved administration of the public register of charities and other databases will have had some impact on numbers.

More recently, published figures from the Charity Commission provide evidence of a continued expansion in the number of registered charities (although the register is not UK-wide). At the end of 2002 the number of registered charities in England and Wales was 162,335, an increase of 1,557 in 12 months.[2] The previous 12-month period saw a net increase of 933 registered charities.

This chapter began by stating that general charities are the core of the voluntary sector. By excluding organisations with charitable status that do not meet the general charities definition (such as Housing Associations) our analysis has removed a significant number of registered charities from the estimates in the Almanac. Therefore, the number

[1] In England and Wales, an additional 4,000 organisations have not been included, as they had not sent returns to the Charity Commission for at least 3 years.

[2] These estimates exclude the subsidiaries and branches of main charities.

of general charities in the UK, and their total income, are significantly less than the number and income published for England and Wales by the Charity Commission. This is illustrated in the following table.

Table 3: Registered and general charities, 2002

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Total number						
Registered charities (England & Wales only)	100,159	42,838	15,382	3,535	421	**162,335**
General charities (All UK)	90,713	43,800	15,785	2,167	232	**152,696**
Total income (£million)						
Registered charities (England & Wales only)	277.0	1,428.0	4,620.0	10,087.0	13,038.0	**29,450.0**
General charities (All UK)	286.6	1,549.6	4,914.3	6,006.7	8,012.4	**20,769.7**

5.3 Geographical distribution

The distribution of general charities unsurprisingly correlates with the UK's population, reflecting the four constituent nations' population distribution. Numbers are as follows:

- 117,846 general charities in England
- 24,498 general charities in Scotland
- 7,302 general charities in Wales
- 3,050 general charities in Northern Ireland.

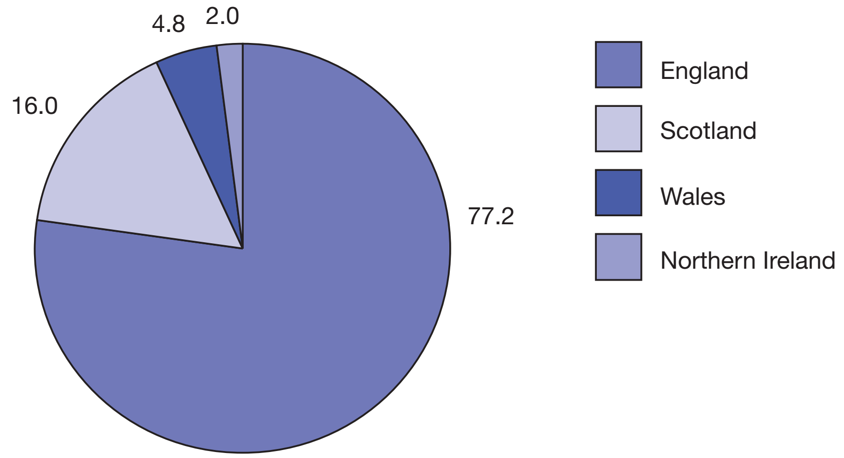
Three-quarters of general charities were based in England, a reflection of the London location of many national charities' head offices (Figure 1). England also has a disproportionate share of the largest general charities (Figure 2), which is again a reflection of the location of many national charities' head offices. The impact on the distribution of total income is discussed in Chapter 6.

5.4 Organisational characteristics and beneficiaries

It is a well-known fact that voluntary action is predominantly local or community-based in scope. A large majority of general charities (82.1%) are defined as having a local area of operation in England or Wales. One in ten (9.5%) operates nationally, whilst the remainder (8.4%) operate nationally and/or overseas.

A number of organisations with charitable status are also companies limited by guarantee, and therefore registered with Companies House. In England and Wales, over 17,000 general charities are also companies limited by guarantee.

Figure 1: The Distribution of UK general charities, 2001/02 (%)



Source: Charity Commission; NCVO; NICVA; SCVO; WCVA.

Figure 2: Number of general charities by size of organisation, 2001/02 (%)

Source: Charity Commission; NCVO; NICVA; SCVO; WCVA.

Analysis of the sector's beneficiaries, function and industry using the Charity Commission classification system offers some insight into the activities undertaken by the sector. Initial analysis of data for general charities suggests that children and young people are the most widely cited beneficiary group. The most widely cited functions are the provision of resources (either buildings, people or financial resources). Although the classification system includes data on sub-sector, it has not yet been possible to adequately analyse this information.

5.5 Conclusion

One of the most commonly asked questions about the sector is 'How many voluntary organisations?' This is of course a question with many answers, and this chapter has illustrated the size of the core of the voluntary sector. This is the basis for much of the analysis in the Almanac. The exclusion of less formal and less well-defined parts of the sector is far from ideal; however, the inclusion of some organisations with charitable status would lead to a radically different picture.

In conclusion, general charities work across a broad range of functions and areas, to the benefit of a wide range of communities of place and interest. The resources used to undertake charitable objectives in relation to these communities are the focus of the remainder of the Almanac.

5.6 Resources and further reading

Facts and figures on registered charities:
www.charity-commission.gov.uk/registeredcharities/factfigures.asp

6. Income

Highlights

- Total income in 2001/02 was £20.8 billion.
- Total income fell by £429 million in real terms, between 2000/01 and 2001/02.
- Two-thirds of total income was generated by just under 2,400 general charities.
- Income from the public sector was the source of 37% of total income, and makes up the largest single source of income.
- Voluntary income (grants and donations) is the main type of income (47% of total income).

6.1 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. In particular, the experience of large general charities (typically those with annual incomes of more than £1 million) is diverging from smaller organisations. For this reason, much of our analysis splits the sector into groups according to their total income.

Strategies for sustainability often stress 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 years 2000/01 and 2001/02, the latest available. All figures have been adjusted for inflation and are expressed in 2001/02 prices, so as to show real change.

This 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.

6.2 Total and average income

The total income of general charities in 2001/02 was £20.8 billion, compared with £21.2 billion in 2000/01 (Table 4). This represents a real fall of 2% in total income, or £429 million. The changes in the sector's total income are reflected by changes in average incomes, which are illustrated in Table 5. In other words, income has failed to keep pace with inflation.

This fall in income has not affected all parts in the sector; in fact, the largest general charities managed to generate increases. However, charities with an income of £1 million or less experienced a collective fall. The lowest income band experienced a combined fall of 21.4%; this appears alarming, but income volatility is proportionately greater for smaller organisations.

Nevertheless, it appears that in the current economic climate larger organisations are better equipped to sustain income levels. This is in part a reflection of the relative importance of different income sources, which is the subject of discussion later in this chapter.

Table 4: Total income by size of organisation, 2000/01 and 2001/02

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01 (£million)	364.9	1,645.6	5,302.0	5,915.8	7,969.9	**21,198.2**
2001/02 (£million)	286.6	1,549.6	4,914.3	6,006.7	8,012.4	**20,769.7**
Total Change (%)	**-21.4**	**-5.8**	**-7.3**	**1.5**	**0.5**	**-2.0**
Total Change (£million)	**-78.2**	**-96.0**	**-387.7**	**90.9**	**42.5**	**-428.5**

Table 5: Average income by size of organisation, 2000/01 and 2001/02

	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	**3,616,039**
2001/02	3,363	35,647	320,594	2,802,049	35,134,765	**3,588,438**

How representative are these average increases and decreases in total income? Table 6 illustrates 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; for example, seven out of ten general charities with incomes of more than £10 million experienced an increase in income, while a significant minority experienced a fall. Importantly, Table 6 shows that the sector-wide fall in total income is caused by a majority of general charities (53%) experiencing a fall in income.

Table 6: General charities' share of income change by size of organisation, 2000/01 –2001/02 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All*
Income increased	39.9	43.6	57.3	63.6	69.6	**43.2**
No change (±1%)	3.4	4.6	3.6	4.7	6.1	**3.8**
Income decreased	56.7	51.8	39.1	31.7	24.3	**53.0**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

Some fluctuations in total income were the result of one-off events. For example, it was clear from the reporting of some charities in rural areas that the foot and mouth crisis had had a severe impact. Falling visitor numbers and event cancellations decimated income, while fixed costs remained in place.

Some larger charities benefited from heightened levels of activity associated with the millennium, whilst a number of high-profile fundraising drives such as the Children's Promise campaign contributed to a peak in income in 2000/01. This 'millennium effect' has been reported elsewhere (CAF, 2003). The combined result was lower reported income by many general charities in 2001/02. It may be the case that 2000/01 will turn out to be a high watermark for some income types.

Finally, comparing total income over a longer time period is difficult and potentially misleading. This is due to changes in accounting methods and practices (in particular the move to reporting total incoming resources and not current income) and, more importantly, the changing institutional landscape of the UK voluntary sector.[3] Expenditure is less affected by changes in accounting practice; therefore, expenditure (Chapter 12) is a better indicator of changes in activity levels over the long term.

6.3 The distribution of total income

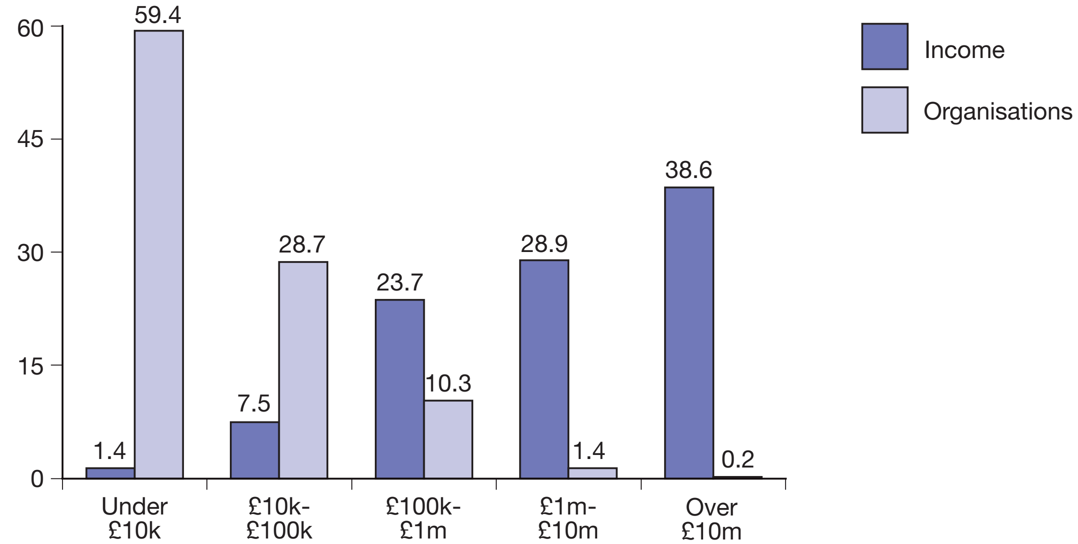
The estimates of total income in the Almanac are based on the assumption that there are almost 153,000 general charities in the UK. As the previous section highlighted, total income is unevenly distributed between these organisations. The characteristics of this distribution are illustrated in Figure 3.

Over two-thirds of total income – equivalent to 68p of every £1 – is generated by those general charities with incomes over £1 million. These 2,399 organisations represent 1.6% of general charities. Conversely, almost nine out of ten organisations share the equivalent of less than 9p of every £1 generated. Finally, it is worth noting that an estimated 4,600 general charities report zero income.

How has this distribution changed over time? Comparison with the previous two benchmarks for 1991 and 1994/95 in Figure 4 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, plus an increasing number of organisations in this group. Compared with previous years, all remaining income bands had seen their share of total income fall.

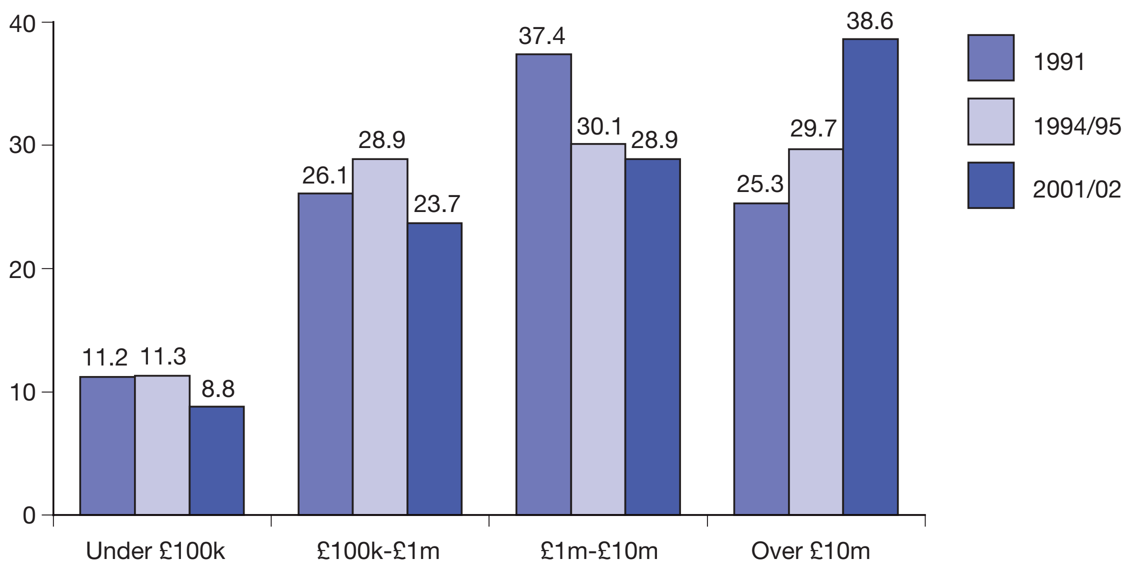
[3] The change that has had most impact is the inclusion of capital grants for the purchase of fixed assets in income received. Pre-SORP accounting practices did not include such grants in income, but instead placed these directly on the charity's balance sheet. Post-SORP, their inclusion has led to higher reported levels of income.

Figure 3: Percentage of organisations and share of income by size of organisation, 2001/02 (%)



Source: NCVO

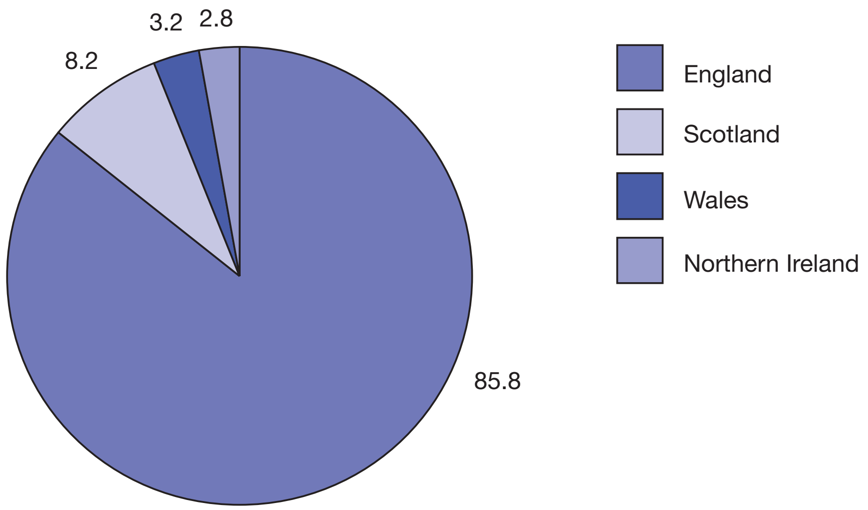
Figure 4: Distribution of general charities' share of income, 1991– 2001/02 (%)



Source: NCVO, ONS

The geographical distribution of this income is illustrated in Figure 5. Just over three-quarters of UK general charities were based in England; however they generated 85.8% of income (£17.8 billion). This partly reflects the location of many UK group headquarters in London. The remaining share of income is accounted for by Northern Ireland (£657 million), Scotland (£1.7 billion) and Wales (£578 million). Forthcoming research by NCVO (Jochum and Wilding, 2004) will offer further breakdowns for the English regions.

Figure 5: Total income by UK nation, 2001/02 (%)



Source: NCVO, NICVA, SCVO, WCVA

An income of your own – trends amongst CAF's top 500 fundraising charities
Cathy Pharoah, Director of Research, Charities Aid Foundation

Charities Aid Foundation (CAF) has been tracking trends in the income of the top 500 major fundraising charities for over 20 years and publishes the results annually in *Charity Trends*. CAF's analysis of the fundraising charities focuses on voluntary income, complementing NCVO's review of financial trends across the broad spectrum of the registered charity sector.

The results published in *Charity Trends 2003* showed that while 55% of the income of the Top 500 fundraising charities in 2001/02 is derived from voluntary sources, the main source of new income growth was funds from statutory sources. Voluntary income growth amongst CAF's Top 500 is running at 1.1% per annum in real terms, compared with 2.6% for non-voluntary income. Such results are a direct reflection of the growing partnership between government and voluntary sector. While unsurprising however, the imbalance of the growth trends in income sources needs to be taken seriously by the voluntary sector whose scope for independent action relies on a healthy level of private income.

Unfortunately the results of CAF research show that most sources of private or independent income to its Top 500 are currently being squeezed. The results of poorer stock market performance over the last few years have meant lower asset values and lower investment income, which fell by more than 20% in real terms.

While the grants expenditure of the charitable trusts boomed in the 1990s on the back of the stock market, it grew by a modest 1% in real terms in 2001-02 amongst the large general trusts on which so many charities rely. Corporates are another source of private income, but the last couple of years have seen a fall in total cash donations and a significant slow-down in the growth rates of total corporate support, reflecting the loss of Gift Aid, poorer market performance and lower pre-tax profits.

Donations from the general public are a crucial source of unrestricted income, and one of the good news stories is that there was a strong growth in tax-efficient giving which attracts important extra revenue from government, worth more than £800 million per annum (including reliefs on payroll giving, Gift Aid, legacies and shares). While giving by all sources showed growth of 4% in 2002, Gift Aid growth was 7%. Only about one in every three pounds donated is given tax-efficiently – charities wanting to increase their unrestricted income should give immediate priority to ensuring that their fundraising is tax-efficient. By supporting the sector through tax reliefs on individual giving as well as through grants and contracts the Government has set a framework for charities to increase both their voluntary and non-voluntary income. Unless the sector takes this challenge and opportunity seriously, it risks sliding into a position of dependency.

6.4 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:

- The general public (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 grant-making foundations)
- The private sector (excluding payments from charitable foundations set up by businesses)
- Internal (trading subsidiaries and the proceeds from investments)

It is also possible to differentiate between the different types of income generated by voluntary organisations. They are primarily:

- Voluntary income (income freely given for which little or no benefit is received by the donor, usually as a grant or donation)
- 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 different problem and these are discussed separately below.

6.4.1 Classification of income from trading subsidiaries

Trading subsidiaries present a unique problem using this approach. It is clear that the activities (and resultant income generated) 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. In fact, by excluding the gross income of trading subsidiaries and only reporting the net amount covenanted, any analysis would exclude £870 million of activities controlled by general charities in 2001/02.

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).

6.5 Voluntary sector income streams, 2000-2002

Using the approach outlined above, Table 8 illustrates the relative importance of different income streams in 2001/02. The key findings are that:

- the sector is still characterised by the voluntary nature of incoming resources: 47.1% of income is given as grants or donations, making voluntary income the most important type of income;
- the public sector is, narrowly, the most important source of income, accounting for 37% of total income. Analysis suggests that grant income from the public sector is worth more than contract income from the same source;
- voluntary income from individual donors is the single most important income stream (19.9% of total income in 2001/02), despite a fall since 2000/01;

- investment returns now only account for 10% of total income;
- 5.3% of total income is received in the form of grants from other voluntary organisations.

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	
	Private sector	Sponsorship Research or consultancy services Patent royalties	Corporate grants and gifts	
	Voluntary sector	Services provided under contract (e.g. membership fees)	Grants from charitable trusts Grants distributed by charitable intermediaries	
	Internally generated	Gross turnover of trading subsidiaries		Dividends Interest payments on securities Rent from investment property Bank and building society interest

Table 8: Income types and sources 2001/02 (% of total)

		Type of income			
		Earned income	Voluntary income	Investment returns	Total
Source of income	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: Table 25

How is the balance between different income types and sources changing? A sense of change can be gleaned by using the same analysis for 2000/01. This is illustrated in Table 9. A number of differences are worth highlighting:

- the public sector was a more important source in 2001/02 than in 2000/01. Income from the public sector has increased in absolute terms (despite the overall fall in total income) and therefore also increased as a share of the total
- the sector is shifting towards generating earned income, away from voluntary income – a trend observed since the early 1990s
- the fall in voluntary income would have been greater were it not for an increase in grants from the public sector

Table 9: Income types and sources 2000/01 (%)

		Type of income			
		Earned income	Voluntary income	Investment returns	Total
Source of income	Individuals	15.5	21.8	0.0	**37.3**
	Public sector	15.8	18.9	0.0	**34.7**
	Private sector	1.8	3.9	0.0	**5.7**
	Voluntary sector	1.2	5.7	0.0	**6.8**
	Internally generated	5.0	0.0	10.5	**15.5**
	Total	**39.3**	**50.2**	**10.5**	**100.0**

Source: Table 28

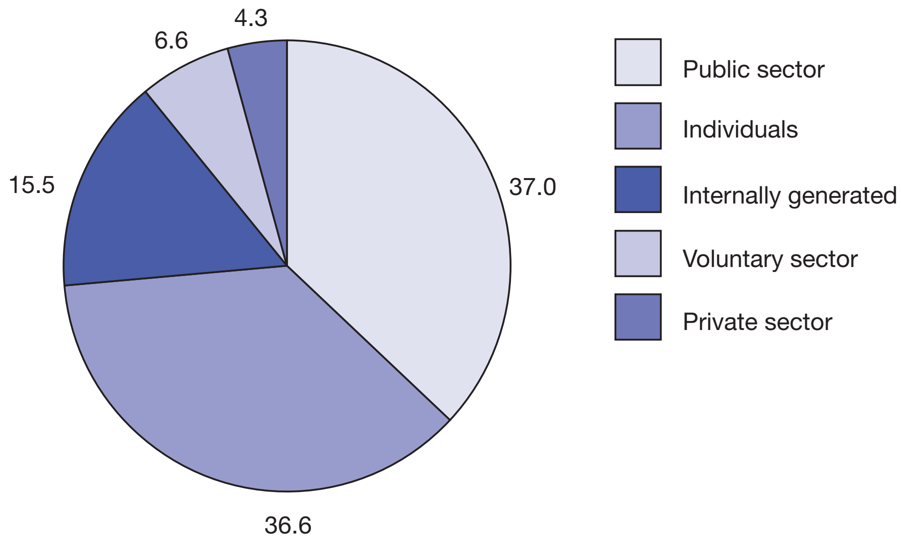
- investment returns account for a falling proportion of incoming resources. Over the longer term, it appears that the role of investment income reached a high point in the mid-1990s, when returns accounted for 20% of total income. In 1991, investment returns accounted for 15% of income

This move towards earned income types and a greater reliance upon public sector sources is hardly surprising. Strategies for sustainability often emphasise the role of earned income, while it is the stated aim of central government policy to increase 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.

6.6 Sources of income, 2000/01-2001/02

The relative importance of different income sources is highlighted in Figure 6. Grants and contracts from the public sector amounted to 37% of total income. This is broadly equivalent to the share of total income derived from the general public in fees and individual donations. Individuals contribute £7.4 billion directly to general charities in fees and donations.

Figure 6: Sources of income, 2001/02 (%)



Source: Table 26

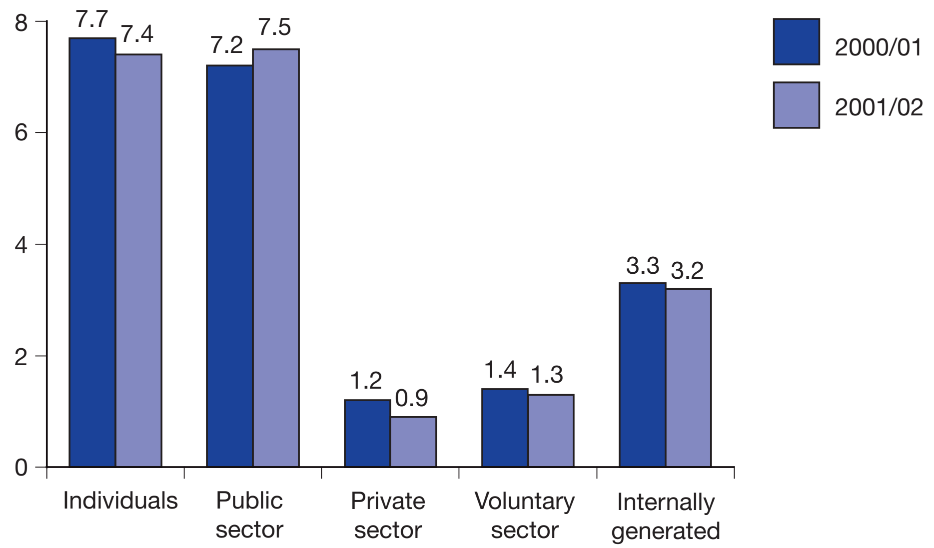
Small but significant changes are evident over the financial years 2000/01 and 2001/02, and these are illustrated in Figure 7. The only source to increase in real terms was the public sector. As a source of income, the public sector was worth an additional £382 million in 2001/02, equivalent to a 5.2% increase in government funding. This increase in public sector income is driven by earned income: of the £382m increase, approximately £332m is an increase in earned income.

All other sources of income decreased in real terms. Income from the general public fell by £277.5 million, a 3.5% fall. Worryingly, this was driven by a fall in voluntary income, although this can in part be explained by an exceptional effort to fundraise from the public in 2000/01 in response to the new millennium. Internally generated income and income from other voluntary organisations produced a combined fall of £206 million. This can be attributed to the direct and indirect impact of declining investment returns.

The largest relative fall was in income from private sector sources. A fall of £322.9 million between 2000/01 and 2001/02 represents a 27% fall. It is difficult to explain the extent to which this is a 'real' fall: 2001/02 was arguably a more representative year due to a number of large, one-off donations intended for capital or endowment purposes in 2000/01. These included an exceptional donation of £184 million by Shell PLC to establish the independent charitable Shell Foundation.

Nevertheless, 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).

Figure 7: Change in total income by source (£million)



Source: Table 17, Table 20

A Two Way Street: Relationships between Business and the Voluntary Sector
Peter Davies, Business in the Community

In 1998 Business in the Community and NCVO set out a vision for future relations between business and the voluntary sector as "a two way street" based on interdependence, mutual benefits and partnerships to tackle key social issues. The result of a joint task force, the report set targets for achievement by 2002 – so what of the vision today?

Corporate social responsibility (CSR), not referred to as a term in the 1998 report, has become a mainstream issue for business driven by the increased expectations of employees, customers, and the wider community. Companies have become increasingly conscious of the need to manage and report on their social and environmental impacts.

This has had significant implications for relations with the voluntary sector, where organisations can act as:

- pressure points on issues of company behaviour influencing company reputation as brand terrorists
- joint venture marketing partners where brand and causes link to deliver financial benefit to both
- partners for the delivery of community investment programmes that increasingly engage time and skills of employees

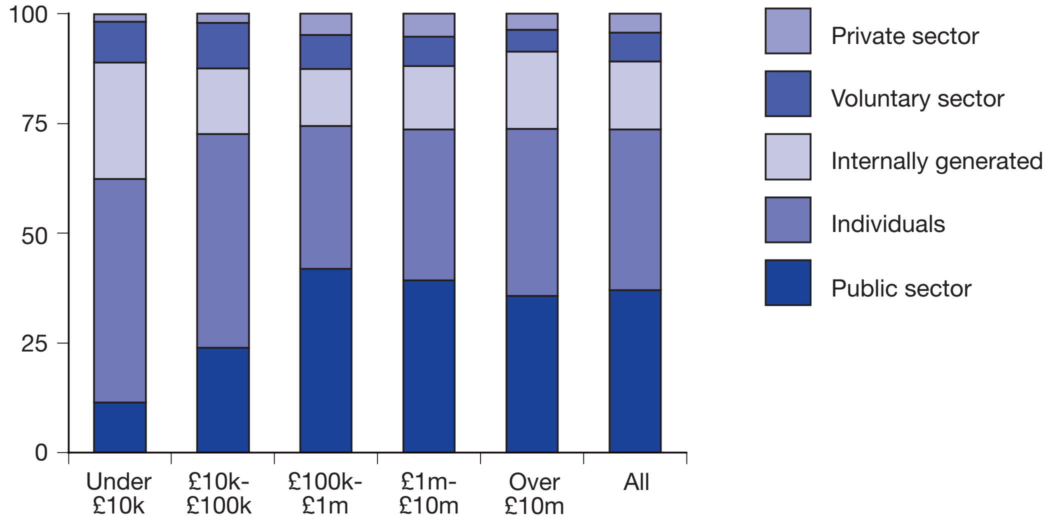
These developments have had most effect at the top end of both sectors where the two way street vision is most clearly evident. However the growth of local business – community partnerships, envisioned by the 1998 report, such as Leicester Cares – is now beginning to build local links between small business and local communities, while Pro Help is now engaging over 1000, mainly small, professional firms, in providing pro bono support to small voluntary organisations. The "Community Mark" to recognise community investment by small and medium enterprises, now being introduced nationally by Business in the Community, is also providing an important stimulus.

The message of the two way street is very clear: long-term sustainable resourcing needs to be based on mutual benefits and clarity on return on investment. Progress has been made since the 1998 report but much still needs to be done through building capacity of voluntary organisations and increasing the scale and quality of business engagement. Government initiatives such as the "Corporate Challenge" can help to build this scale, while the new Partnership Academy being developed by Business in the Community will draw together existing best practice in this field to ensure that future relationships maximise the capacity of the sector to influence and engage business on the basis of handshakes not handouts.

How important are the different sources of income to different sizes of organisation? Figure 8 illustrates the importance of the public sector to general charities with an income of £100,000 or more. Charities with incomes between £100,000 and £1 million received 41.9% of their income from government.

Figure 8 also highlights the relative importance of internally generated income to the smallest organisations with incomes of less than £10,000. This is usually interest received on bank and building society balances. The smallest organisations were most reliant upon public support, receiving about half of their income from individuals' payments and donations. These organisations were also relatively reliant upon income from other voluntary organisations.

Figure 8: Sources of income by size of organisation, 2001/02



Source: Table 26

6.6.1 Income from the public sector, 1991-2001/02

The role of government funding in the sector continues to generate significant comment and some analysis. The relationship between government, its agencies and the voluntary sector is complex: simple correlations between funding levels and the sector's degree of independence generate more heat than light.

Such arguments have intensified following the Labour Government's efforts to devote a greater share of national income to the delivery of public services, despite the obvious fact that resources flow to activities, not to organisational forms.[4] Private sector organisations were equally, if not substantially, more able to benefit from the increased allocation of national income to public services. Moreover, individual general charities often have contracts with numerous public sector bodies for different services, and not one over-bearing partner.

Income from the public sector is undoubtedly rising, both in absolute terms and as a proportion of total income.[5] Public sector sources accounted for 26.9% of total income in 1991, 29.3% in 1994/95 and 37% in 2001/02. In real terms, income rose from £3.17 billion in 1991 to £7.53 billion in 2001/02.[6] Total UK public sector expenditure also increased in real terms over this period, from £309.1 billion to £387.7 billion. These trends are illustrated in Figure 9.

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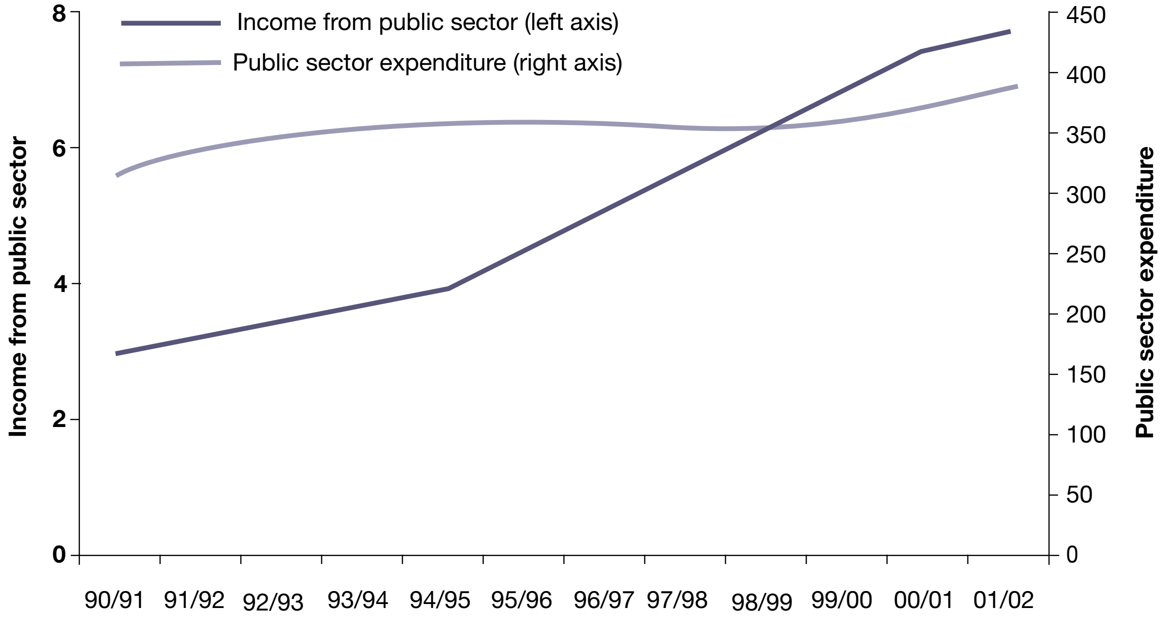
[4] It should also be remembered that public sector sources include overseas governments and international institutions, including European Union structural funds.

[5] Change over time is partly clouded by the establishment of the National Lottery in 1994: grants from the Lottery boards are classified as income from the public sector (albeit a distinct and special income stream). In 2001/02, funds from Lottery distributors represented 2.6% of total income, or 7.2% of income from public sector sources.

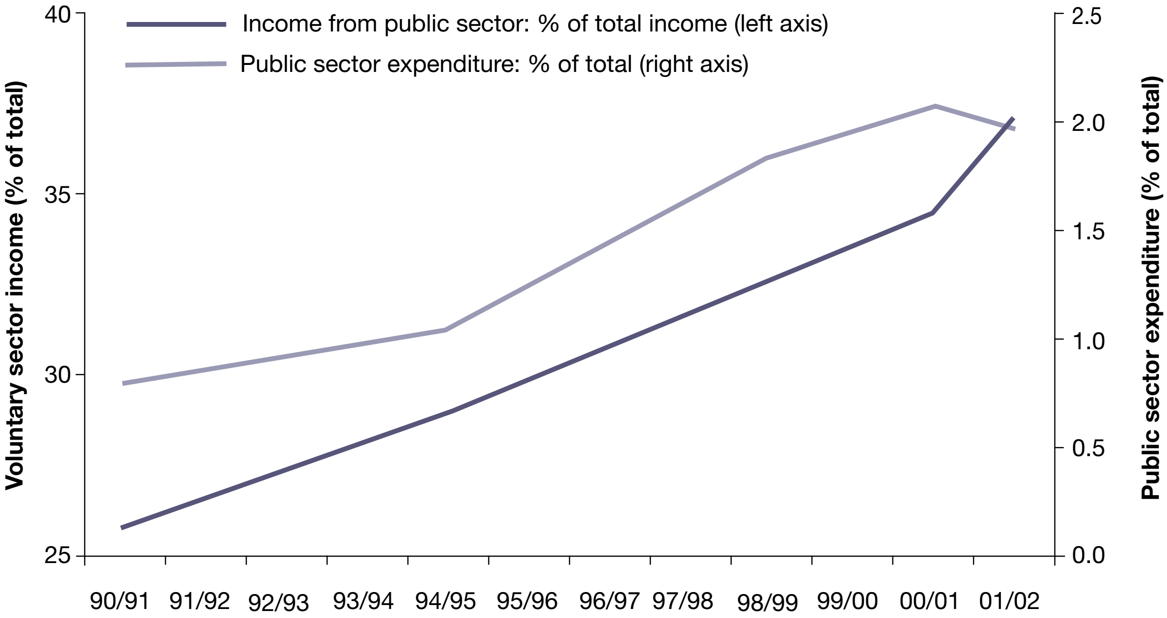
[6] This equates to a real increase of 138% in 11 years; however, changes in charity accounting mean that the increase is likely to be less substantial.

Figure 9: Voluntary sector income and UK public sector expenditure (£billion), 1990-2001/02



Source: NCVO, HM Treasury

Figure 10: Voluntary sector income and UK public sector expenditure accounted for by voluntary sector, 1990-2002 (%)



Source: NCVO, HM Treasury

The context for these increases is important. Efforts to improve the quality and accessibility of public services in the UK have necessitated increases in government expenditure, and the sector was a beneficiary of this increased level of activity. Analysis indicates that the sector accounted for a greater share of public sector expenditure in 2001/02 than in either 1991 or 1994/95. However, as total public sector expenditure continues to increase, the sector's share may have fallen slightly (Figure 10).[7] In summary, changes in the voluntary sector economy are reflecting changes in the UK economy.

Fundraising for the future
Lindsay Boswell, Chief Executive, The Institute of Fundraising

Looking at the headline figures it is fair to say that the growth in fundraising levels over the last three years relates to the tax measures introduced in 2000. Currently tax-efficient giving is roughly £2 billion of the overall individual giving of £7 billion. One clear trend must be to continue to make as much individual giving as tax efficient as possible. There is clearly a great deal more to be done to increase payroll giving even though the additional 10% supplement, which has resulted in between 30 and 40% growth of this area, ends in March 2004.

Face-to-face fundraising has experienced its main growth and any further uplift is likely to be through second and third generation developments of this technique. Technology itself isn't likely to make much of a difference but clever fundraising organisations will continue to integrate email, web-based giving and SMS text applications as part of their fundraising mix.

The success of the Legacy Promotion Campaign in bringing together the largest number of charities of every size and cause to collectively fundraise through changing attitudes is the biggest and most exciting development of the last few years. Giving patterns have shown that donors have a growing appetite for charities working more closely together and there are likely to be many calls for this example to be replicated across other areas of fundraising.

6.7 Types of income, 2000/01-2001/02

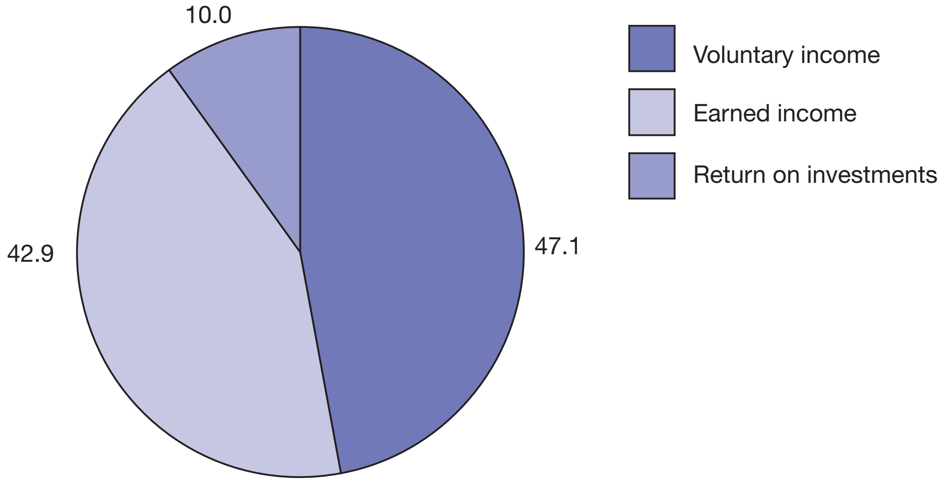
This section firstly summarises the three types of income. It is then followed by a more in-depth discussion of the different components in each income type. The relative importance of different types of income is shown in Figure 11. It is important to highlight that the sector is still characterised by voluntary income, despite increasing emphasis on earned income. Voluntary income – grants, donations and gifts – accounted for almost half the sector's income and was worth a total of £9.8 billion in 2001/02.

[7] Percentages are intended as a guide to trends – a more accurate estimate would exclude sources from non-UK public sector sources.

A slightly smaller proportion (42.9%) was earned from the sale of goods and services. This amount, which included the gross income from trading subsidiaries, was worth £8.9 billion to the sector. It should be noted that the earned income category included 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.

Finally, investment returns generated £2.1 billion, or 10% of total income, in 2001/02. Investment income does not include proceeds from the disposal of fixed assets (such as investments); these are discussed in Chapter 13.

Figure 11: Types of income, 2001/02 (%)

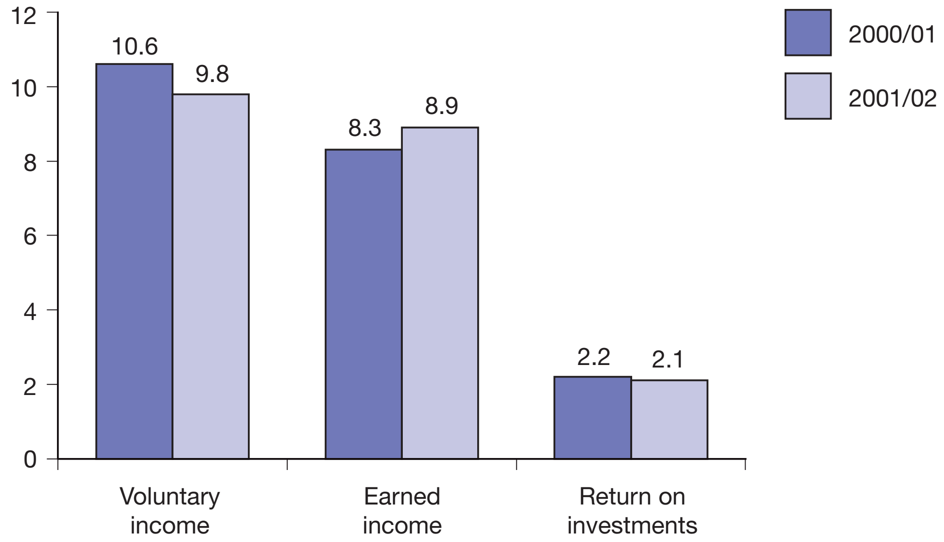


Source: Table 27

The balance among the different types of income changed between 2000/01 and 2001/02 and is shown in Figure 12. Earned income assumed greater importance, increasing in real terms by £581 million. This increase was driven by public sector sources.

Worryingly, voluntary income (including legacies) fell by £856 million (Table 10). In 2000/01 voluntary income accounted for more than 50% of total income. General charities in all income groups suffered from this decline, but mid-sized charities (those with incomes between £100,000 and £1 million) bore the brunt. This group saw their voluntary income fall by £551 million – in other words, this group accounted for almost two-thirds of the sector’s fall in voluntary income. Larger charities continued to invest in fundraising and brand awareness, despite pressures on income. Such strategies may have insulated them from this fall in voluntary income.

Figure 12: Change in total income by source (£billion)



Source: Table 16, Table 19

Table 10: Share of the fall in voluntary income by size of organisation, 2000/01-2001/02

Voluntary income	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Net fall 2000/01 – 2001/02 (£million)	-19.3	-206.8	-551.0	-28.6	-50.8	**-856.4**
Share of total fall, by income band (%)	2.3	24.1	64.3	3.3	5.9	**100.0**

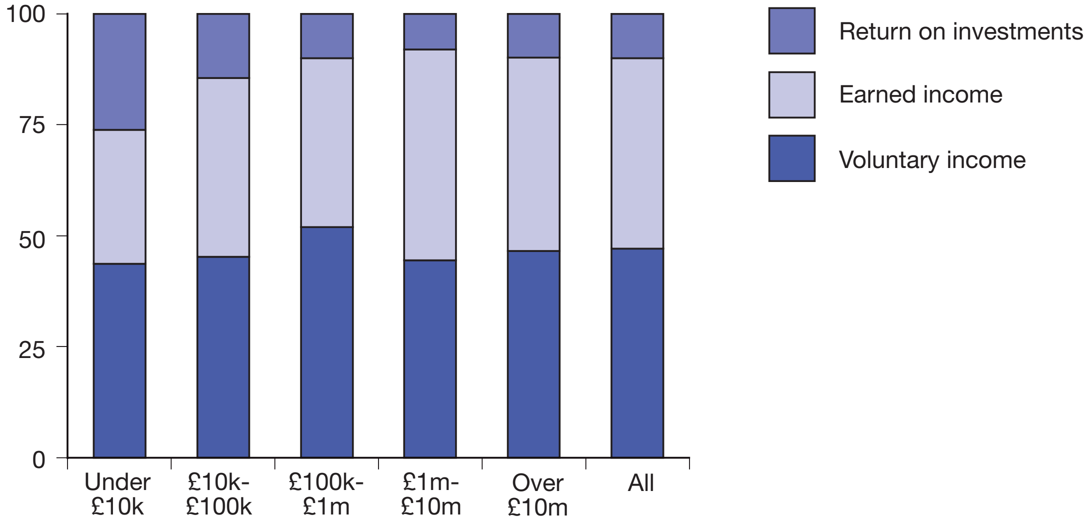
Source: Table 16, Table 19

Investment returns also fell, by £153 million to £2.1 billion in 2001/02. The sector has traditionally relied upon such returns to fund its own activities and the activities of individuals and organisations outside the sector. Any fall in investment income will disproportionately impact upon endowed trusts and foundations, which in turn explains the fall in grants and donations received from other voluntary organisations.

How important are the different types of income to different sizes of organisation? No clear pattern emerges. Voluntary income accounts for between 44% and 52% of income; but those mid-sized organisations (incomes between £100,000 and £1 million) that are most dependent on voluntary income are also the group that lost the most.

The smallest and largest organisations are most dependent upon investment returns to generate income. One quarter of the income of organisations with incomes of less than £10,000 is generated from investment returns.

Figure 13: Types of income by size of organisation, 2001/02 (%)



Source: Table 18

In summary, total income would have fallen even further had it not been for the efforts by the sector to earn more income. The following sections explore some of these trends in more detail.

6.7.1 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, the introduction has argued that the gross income of trading subsidiaries should be treated as earned income. Trading subsidiaries require separate analysis and are dealt with at the end of this section.

From asking to earning?
Nick Wilkie, Sustainable Funding Project Manager, NCVO

Who knows? Maybe in 20 years' time we will witness a new age of individual giving, expanded government grants, fully recovered lottery ticket sales, all UK companies donating 1% of pre-tax profits to social action and a never-ending bull market sustaining charity investments and swelling the coffers of grant-making trusts. Maybe.

Swelling need. Finite funds. Charities are increasingly aware that self-financing can be *one* alternative to competing for a slice of a limited pie and subsisting on a staple of short-term, project-based grants.

The examples of the sector generating income from trading goods and services are varied, ingenious and stretch well beyond charity shops and contracting welfare services to statutory authorities. Organisations are making more effective use of their buildings, their networks, their brands and their intellectual property. The sector is sweating its assets like never before.

No great mystery lies behind successful schemes. It is, very simply, about matching products to markets. The question 'how?' first invites organisations to revisit all of their assets, moving mindsets on from fundraiser to market maker.

Speaking Up! is a Cambridge-based charity working with learning disabled adults. They generate more than 25% of annual turnover from training and consultancy traded to other social care providers on the development of self-advocacy programmes. Delivered by Speaking Up!'s own client group the business not only makes money, it also furthers mission – what better way to self-advocate than train others about self-advocacy? – whilst simultaneously spreading good practice. In a very different setting, Community Action Furness runs a youth project refurbishing mountain bikes. It also generates income after spotting that if you put the two key assets together (bikes and young people) you can develop a profit-bearing mail delivery service! Two of many examples.

So, turning from practice to policy, it is worth drawing on the Almanac's evidence which, in detailing the extent to which the voluntary sector is embracing entrepreneurship, shows that 'social enterprise' may be understood not only as a form of organisation (or a discreet sector) but equally as an *activity* (trading for a social purpose). Once we see that social enterprise is a verb as well as a noun, we understand it is an operating technique available to many forms of voluntary and community organisation. We don't have to become a Social Enterprise to engage in social enterprise.

Not all voluntary organisations have the ability to trade goods and services. Grants and donations are not second-class sources of income. Earning is no magic bullet. But it *is* another tool in the box. And it is probable that many organisations have latent earning capacity. However, if we can no longer rely on the kindness of strangers, we need to start doing it for ourselves. What's more, we can.

What are the costs, benefits and future issues for the sector's reliance upon earned income? Table 11 highlights the certainties associated with contractual arrangements, but also the subsidisation associated with some relationships. It should be remembered that fee subsidisation sometimes contributes to charitable activities. Future opportunities might include the sector's ability to generate more economies of scale, though concerns over the 'crowding out' of voluntary income remain.

Table 11: Earned income: strengths, weaknesses, opportunities and threats

Strengths	Weaknesses
Certainty of contractual relationship Drives up quality and empowers users Emphasis on delivery can lend focus to mission Builds organisational skills	Purchaser dominant player in fee relationships Too often short-term Price subsidy, not full-cost recovery Risk adverse regulatory framework No level playing field with other sectors
Opportunities	**Threats**
State's drive to improve accessibility, quality and plurality of public services Economies of scale Market segmentation: more niche providers Sales of intellectual property (e.g. expertise of niche issues) Collaborative relationships Emphasis on quality of outcomes Long-term partnership models (e.g. Voluntary Finance Initiative)	Drift from original mission Impact upon advocacy (level, ability) Creation of a dependency culture External competition (from non-profits, private sector and the state) Crowding-out of voluntary income Public perception Trend to monopoly/oligopoly

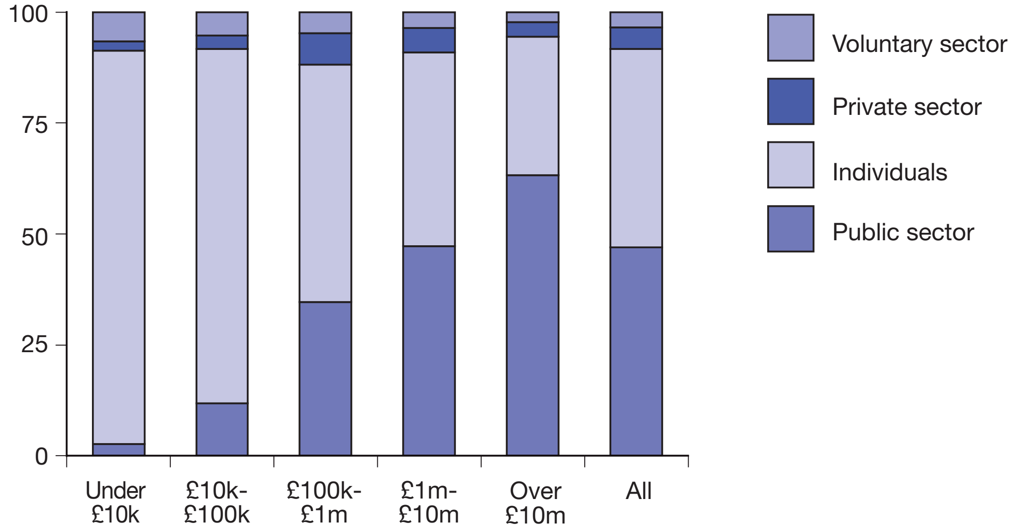
Sources of earned income are illustrated in Figure 14. A majority of the sector's earned income (£3.7 billion) is generated from the public sector, though this is heavily weighted towards large organisations. The analysis suggests that four-fifths of fee income from the public sector was shared by general charities with an income of more than £1 million. Clearly, smaller organisations are more likely to earn income from the general public.

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.

6.7.2 Earned income from trading subsidiaries

In addition to earned income that is directly generated by general charities, income is generated by separate trading subsidiaries controlled by the parent charity. Previous analyses have included the net turnover in estimates of total income, and not the gross turnover. The gross income generated by trading subsidiaries has been included in this analysis because:

Figure 14: Sources of earned income (excluding trading subsidiaries) 2001/02 (%)



Source: Table 16

- exclusion of companies controlled by charities would exclude a significant volume of economic activity under the control of the sector; and
- analysis of the activities of trading subsidiaries clearly indicated that they were often not limited to non-primary purpose trading. Therefore, their exclusion would underestimate the total volume of primary purpose trading undertaken by general charities.

However, including trading subsidiaries in the analysis is not without problems. The reporting of trading subsidiaries in the parent charity's accounts is frequently poor, particularly when the subsidiary fails to generate a surplus. In some cases it proved impossible to separately assess the subsidiary's activity. Understanding the use, role, trading success and accountability of charities' trading subsidiaries requires further work in order to understand a more accurate financial position of the sector.

Bearing in mind these limitations, Table 12 offers the best estimate of the contribution of trading subsidiaries to total incoming resources. Total income is estimated at £1.08 billion, or 5% of the sector's total incoming resources. Larger, more complex general charities are more likely to establish trading subsidiaries. Unsurprisingly, trading subsidiaries controlled by the largest general charities with incomes of £1 million or more generate nearly all (87.6%) of this income.

Table 12: Trading subsidiaries' income and expenditure by size of organisation 2001/02

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Subsidiary gross income (£million)	0.4	1.5	132.8	343.6	605.1	**1,083.4**
Subsidiary total costs (£million)	0.1	0.4	97.4	263.7	508.3	**869.9**
Net surplus (£million)	0.3	1.1	35.5	79.9	96.8	**213.5**
Surplus as % of gross	68.9	72.0	26.7	23.2	16.0	**19.7**

Source: Table 16

This chapter has already highlighted the difficulty of classifying this income stream using our analytical framework. After subtracting costs of £870 million, the net surplus was covenanted to the parent charities. This surplus of £214 million was available for charitable use and was technically a charitable donation. In addition, many subsidiaries undertake activities that contribute to the charitable aims of the parent organisation, so the surplus alone is not indicative of the contribution of many subsidiaries.

6.7.3 Voluntary income

Grants, donations and gifts given without expectation of return (i.e. voluntary income) characterise the voluntary sector. This chapter has already highlighted the worrying fall in voluntary income, yet the obvious benefits of an unrestricted source of voluntary income outweigh the disadvantages associated with its uncertainty (Table 13). A downturn in the UK economy continues to be the main threat to voluntary income streams, yet the sector has a real opportunity to lock in voluntary income by moving individual donors to regular, tax-efficient methods of giving.

Yet donors were 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 £8.5 billion to the sector in 2001/02; legacies added a further £1.3 billion.

As was the case for fee income, the general public was particularly important to the smallest general charities (those with an income of under £10,000), traditionally those who rely upon a local, known base of support. The public were also relatively important to the largest general charities, which reflects the resources dedicated to fundraising and brand building made by these organisations. This clear pattern is indicative of what might be called the dangerous middle ground: general charities with no clear local base or national brand recognition. This may also reflect a conscious move by these organisations to build their earned income streams.

Table 13: Voluntary income: strengths, weaknesses, opportunities and threats

Strengths	Weaknesses
Often unrestricted or without strings Defines the sector, lends credibility and public legitimacy to operate Funds innovative activities Base from which to lever other resources	Follows popular causes Projects funded but not core costs Uncertainty
Opportunities	**Threats**
Tax-efficient giving New technologies and fundraising Drive for Corporate Social Responsibility Engagement with the mass affluent	Increasing competition Public scrutiny and perception Falling income from Lottery distributors Continuing shift from grants to contracts Falling house prices, rising debt and higher tax burden reduce individuals' disposable income Eastward redistribution of EU funds

Voluntary income from public sector sources (excluding National Lottery funds) was worth £3.5 billion in 2001/02. Funds disbursed by the National Lottery distributors added a further £550 million. Public sector grants were particularly important to mid-sized general charities with incomes between £10,000 and £1 million, as are grants from the National Lottery distributors.

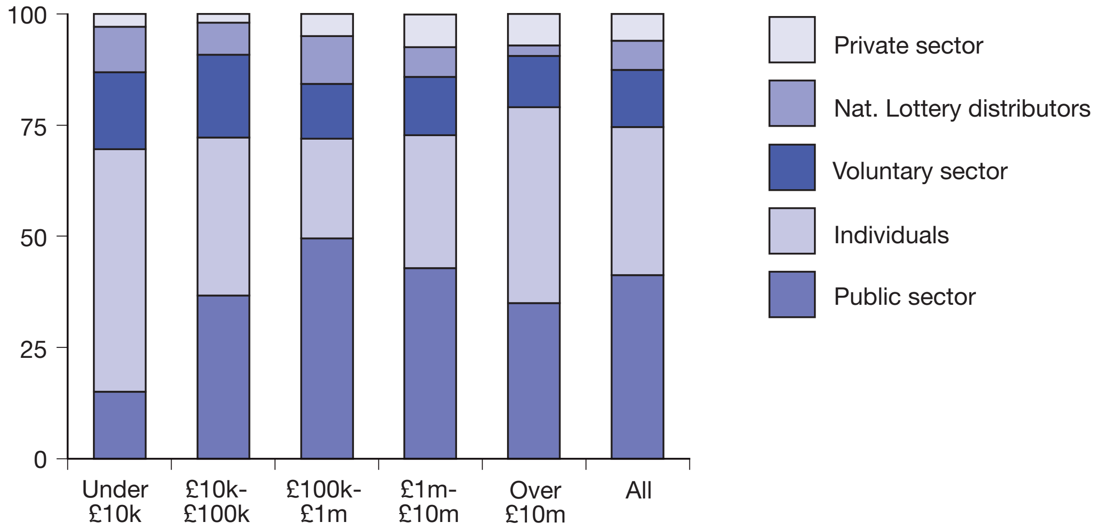
Grants from other voluntary organisations were worth £1.09 billion to general charities. This reflects the extent to which income is double-counted, although the figure does not tally with general charities' expenditure on grants to other charities. Nevertheless, such grants supported smaller general charities in particular; almost one fifth of voluntary income for organisations with incomes between £10,000 and £100,000 is derived from other voluntary organisations.

Finally, gifts and donations from the private sector were worth £515 million – 6.1% of voluntary income. Larger organisations appear to have had 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) means that cash giving by businesses is not the entire story.

6.7.4 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 £1.3 billion to the sector in 2001/02. This figure is £90 million less than in 2000/01, which may be the result of the continuing fall in equity prices during this period.

Figure 15: Sources of voluntary income (excluding legacies) 2001/02 (%)



Source: Table 16

Table 14: Legacy income by size of organisation, 2001/02

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Total income from legacies (£million)	3.1	19.6	131.4	246.0	902.7	**1,302.7**
Legacies as a % of total income	1.1	1.3	2.7	4.1	11.3	**6.3**
Income band's share of total legacies (%)	0.2	1.5	10.1	18.9	69.3	**100.0**

In terms of total value, legacies were disproportionately important to large general charities (Table 14). Although charities with incomes of more than £10 million shared 38.6% of total income, they accounted for 69.3% of legacy income. This group was also particularly reliant upon legacies as a proportion of total income (11.3%).

6.7.5 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 have been hit by a "triple-whammy" in recent years: falling equity prices and company profits; the further tapering away of Advance Corporation Tax (ACT) credits; and the move to a low-interest rate, low inflation economy. Real growth in property values has, however, offered a small consolation.

Table 15: Investment income: strengths, weaknesses, opportunities and threats

Strengths	Weaknesses
Internally generated	Difficult to build an asset base
Enables sustainability	Public perception of reserves
Independent	Lack of trustee investment expertise
Outperforms inflation in the long term	Risk management
Base to lever other income streams	
Relatively predictable	
Funds core costs and activities	
Opportunities	**Threats**
Socially responsible/ethical investment	Investment risk (e.g. falling asset values and dividend income)
Common Investment Funds	Non-ethical investments (reputation)
Trustee Act 2000	Property crash
Increasing range of financial instruments	Imbalanced portfolios
Rising interest rates	

The importance of this source has ebbed and flowed with the success of UK and world equity markets. Investment returns accounted for 15.6% of total income in 1991 and 17.3% in 1994/95. This proportion is likely to have been higher in the late 1990s.

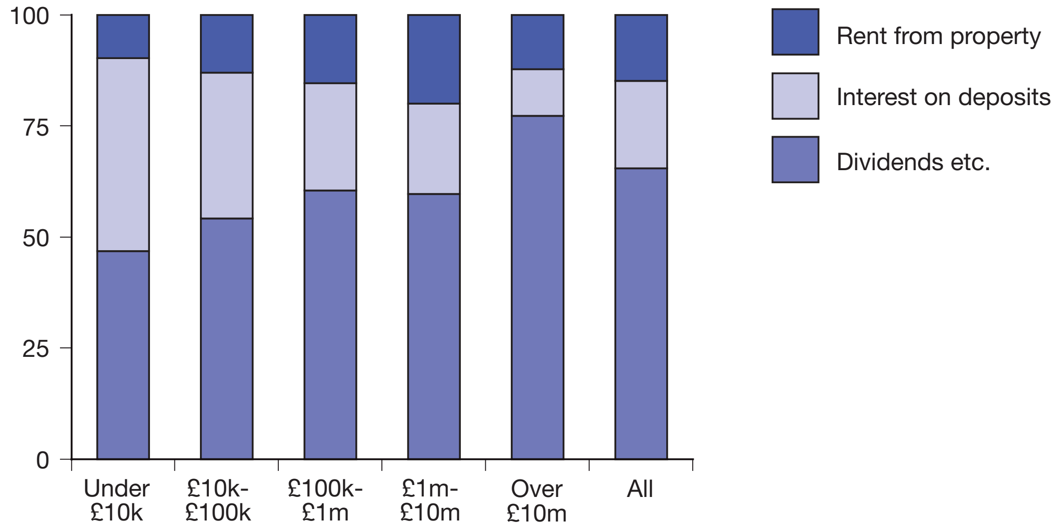
The long-term impact of the Trustee Act 2000 is, as yet, unclear. The Act repealed the requirement to hold investments in a narrow range of asset classes (such as British Government securities) and facilitated investment in a broader range of investments. In the short term, this may have increased the exposure of the sector to falling equity markets and the falling returns associated with it.

Investment income offers a real platform for sustainability as it is internally generated and relatively predictable, yet holding investments as reserves to generate this income is not without problems (Table 15). Conversely, investment management offers charities an opportunity to enhance their reputation by supporting (or otherwise) ethical or socially responsible businesses. Moreover, at the time of writing, a more bullish equity market and the start of an upward swing in the interest rate cycle offer investment opportunities. Current concerns regarding a bubble in property prices (and therefore higher returns) pose a potential threat.

Investment returns totalling £2.2 billion were driven by dividends and similar returns on equities, securities and unit trusts. Such returns were worth £1.4 billion in 2001/02, or two-thirds of investment income (Figure 16). Smaller organisations are more likely to generate returns 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.

The sector as a whole saw its income from dividends and interest fall between 2000/01 and 2001/02 by a total of £177 million. In turn, this is likely to have impacted upon the activities of grant-making foundations that rely upon investments for their income. The only investment return to increase was that derived from investment property holdings. Investment property generated approximately £307 million in 2001/02, an increase of £25 million. General charities with incomes between £1 million and £10 million are most likely to generate income from investment property, though it is worth noting that even the smallest organisations hold investment property.

Figure 16: Sources of investment income, 2001/02



Source: Table 16

6.8 Conclusion

The description of a fall in total income appears counter-intuitive at a time when we know that the voluntary sector in the UK is once again expanding. The level of detail highlighted (and yes, there is much more going on beneath the surface) in this chapter is, however, enough to illustrate that the continuing expansion is producing winners and losers.

Large, national organisations are doing relatively well, driven by a mixture of contract income from the public sector and voluntary income sustained by investment in fundraising. There is undoubtedly a geographical element to this success – national organisations are better able to build and sustain brands, achieve economies of scale, and transact with central government bodies and their national agencies, backed up by an increasingly enforced national Compact. It is no surprise that smaller, local charities, perhaps working in areas without local compacts, are doing less well. Public sector bodies commissioning services at the local level may argue they have fared equally well in recent years.

In conclusion, a longer-term perspective is needed before we can interpret these trends with a greater level of confidence or satisfaction. Millennium appeals, and the subsequent fall-off in activity, have certainly disrupted longer-term trends. In particular, tracking this group of organisations over time will enable us to distinguish between real growth or decline and expansion resulting from the changing institutional landscape. Already, we are aware of changes to the operating environment in 2003: rising equity markets and interest rates; concerns over consumers' disposable income and the house price bubble; and, worryingly for some organisations, a worsening fiscal position for UK government. Income streams will continue to be volatile.

6.9 Resources and further reading

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

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

CAF (2003) *Charity Trends 2003*. CaritasData. See www.cafonline.org/research/

Charities SORP 2000. A number of the terms used in this chapter refer to the charities SORP.
www.charity-commission.gov.uk/publications/sorpcc62.asp

Directory of Social Change. DSC publish a number of books offering advice on funding sources and fundraising techniques. www.dsc.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.
www.jhu.edu/~cnp/

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

Palmer, P. and Randall, A. (2001) *Financial Management in the Voluntary Sector.* London: Routledge.

Home Office Research Development and Statistics Directorate (2001) *Central government funding of voluntary and community organisations*, 1982/83 to 1999/2000.
www.homeoffice.gov.uk/rds/voluntary1.html

Table 16: Total income by size of organisation, 2001/02 (£million)

Income stream	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals' gifts & donations (gross)	66.5	242.8	544.2	729.0	1,245.3	**2,827.8**
Public sector grants	18.4	250.7	1,203.6	1,039.6	990.1	**3,502.4**
National Lottery distributors' grants	12.6	49.0	260.8	159.7	68.0	**550.1**
Voluntary sector grants	21.1	127.2	299.2	319.1	327.0	**1,093.6**
Private sector gifts & donations	3.5	13.5	118.0	179.3	200.4	**514.8**
Voluntary income (ex legacies)	**122.1**	**683.2**	**2,425.8**	**2,426.7**	**2,830.9**	**8,488.6**
Legacies	**3.1**	**19.6**	**131.4**	**246.0**	**902.7**	**1,302.7**
Individuals' fees & payments	76.3	496.9	929.9	1,094.1	898.1	**3,495.4**
Public sector fees & contracts	2.3	73.7	599.5	1,180.2	1,823.1	**3,678.8**
Private sector fees & sponsorship	1.8	18.5	121.3	137.3	94.9	**373.7**
Voluntary sector fees & payments	5.8	33.0	83.1	89.4	63.7	**274.8**
Earned income (ex trading subs)	**86.1**	**622.0**	**1,733.9**	**2,500.9**	**2,879.8**	**7,822.7**
Rent from investment property/land	7.3	29.2	75.8	98.0	96.5	**306.8**
Dividends from equities & securities	35.1	121.1	296.5	292.2	613.3	**1,358.3**
Interest on cash & bank deposits	32.5	73.0	118.1	99.4	84.2	**407.2**
Total investment income	**75.0**	**223.4**	**490.4**	**489.6**	**794.0**	**2,072.3**
Trading subs: gross income	**0.4**	**1.5**	**132.8**	**343.6**	**605.1**	**1,083.4**
Total incoming resources	**286.6**	**1,549.6**	**4,914.3**	**6,006.7**	**8,012.4**	**20,769.7**

Table 17: Income sources by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals	145.7	754.7	1,596.8	2,057.8	3,046.4	**7,601.4**
Public sector	33.1	371.8	2,058.9	2,361.5	2,871.3	**7,696.6**
Private sector	5.2	31.8	237.9	314.9	294.3	**884.1**
Voluntary sector	26.7	159.5	381.8	409.2	389.4	**1,366.5**
Internal	75.9	231.9	639.0	863.4	1,411.0	**3,221.1**
Total	**286.6**	**1,549.6**	**4,914.3**	**6,006.7**	**8,012.4**	**20,769.7**

Table 18: Income types by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Earned income	86.5	623.5	1,866.7	2,844.5	3,484.9	**8,906.1**
Voluntary income	125.2	702.7	2,557.3	2,672.6	3,733.5	**9,791.3**
Investment returns	75.0	223.4	490.4	489.6	794.0	**2,072.3**
Total	**286.6**	**1,549.6**	**4,914.3**	**6,006.7**	**8,012.4**	**20,769.7**

Table 19: Total income by size of organisation, 2000/01 (£million)

Income stream	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals' gifts & donations (gross)	71.3	254.7	887.5	795.0	1,211.0	**3,219.5**
Public sector grants	27.9	268.0	1,243.6	975.2	920.8	**3,435.3**
National Lottery distributors' grants	9.9	67.2	257.7	159.8	71.3	**565.9**
Voluntary sector grants	26.1	195.7	381.3	320.8	279.4	**1,203.3**
Private sector gifts & donations	6.6	13.6	130.0	214.1	467.1	**831.5**
Voluntary income (ex legacies)	**141.8**	**799.1**	**2,900.0**	**2,464.9**	**2,949.6**	**9,255.5**
Legacies	**2.7**	**110.4**	**208.2**	**236.3**	**834.6**	**1,392.3**
Individuals' fees & payments	115.3	411.7	823.7	1,072.3	868.6	**3,291.7**
Public sector fees & contracts	0.5	53.2	520.2	1,097.9	1,675.3	**3,347.1**
Private sector fees & sponsorship	11.4	11.0	116.5	145.6	96.9	**381.4**
Voluntary sector fees & payments	3.5	23.5	82.6	83.5	61.4	**254.4**
Earned income (ex trading subs)	**130.8**	**499.3**	**1,543.0**	**2,399.3**	**2,702.1**	**7,274.6**
Rent from investment property/land	5.7	26.5	63.9	91.6	94.5	**282.3**
Dividends from equities & securities	35.4	117.2	304.1	289.3	701.9	**1,447.9**
Interest on cash & bank deposits	48.1	91.0	130.4	112.2	113.1	**494.7**
Total investment income	**89.1**	**234.7**	**498.3**	**493.2**	**909.6**	**2,224.9**
Trading subs: gross income	**0.5**	**2.0**	**152.4**	**322.1**	**573.9**	**1,051.0**
Total incoming resources	**364.9**	**1,645.6**	**5,302.0**	**5,915.8**	**7,969.9**	**21,198.2**

Table 20: Income sources by size of organisation, 2000/01 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals	189.1	770.6	1,911.8	2,093.4	2,914.1	7,878.9
Public sector	37.9	387.6	2,015.0	2,215.0	2,659.5	**7,315.0**
Private sector	18.0	24.4	244.7	357.6	562.3	**1,207.0**
Voluntary sector	29.4	218.9	463.1	404.1	339.7	**1,455.3**
Internal	90.5	244.2	667.4	845.7	1,494.3	**3,342.1**
Total	**364.9**	**1,645.6**	**5,302.0**	**5,915.8**	**7,969.9**	**21,198.2**

Table 21: Income type by size of organisation, 2000/01 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Earned income	131.3	501.4	1,695.4	2,721.4	3,276.0	**8,325.6**
Voluntary income	144.5	909.5	3,108.2	2,701.2	3,784.3	**10,647.7**
Investment returns	89.1	234.7	498.3	493.2	909.6	**2,224.9**
Total	**364.9**	**1,645.6**	**5,302.0**	**5,915.8**	**7,969.9**	**21,198.2**

Table 22: Change in total income, by size of organisation, 2000/01 - 2001/02 (£million)

Income stream	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals' gifts & donations (gross)	-4.8	-11.9	-343.3	-66.1	34.3	**-391.7**
Public sector grants	-9.5	-17.3	-39.9	64.4	69.3	**67.1**
National Lottery distributors' grants	2.7	-18.2	3.1	-0.1	-3.3	**-15.7**
Voluntary sector grants	-5.1	-68.5	-82.1	-1.7	47.6	**-109.7**
Private sector gifts & donations	-3.1	-0.1	-12.0	-34.8	-266.7	**-316.7**
Voluntary income (ex legacies)	**-19.7**	**-115.9**	**-474.2**	**-38.2**	**-118.8**	**-766.8**
Legacies	**0.4**	**-90.8**	**-76.8**	**9.6**	**68.0**	**-89.5**
Individuals' fees & payments	-39.0	85.2	106.2	21.8	29.5	**203.7**
Public sector fees & contracts	1.7	20.5	79.3	82.2	147.9	**331.7**
Private sector fees & sponsorship	-9.7	7.5	4.8	-8.3	-2.0	**-7.6**
Voluntary sector fees & payments	2.3	9.5	0.5	5.9	2.3	**20.4**
Earned income (ex trading subs)	**-44.7**	**122.7**	**190.9**	**101.6**	**177.6**	**548.1**
Rent from investment property/land	1.7	2.7	11.9	6.4	1.9	**24.5**
Dividends from equities & securities	-0.3	3.9	-7.6	2.9	-88.6	**-89.7**
Interest on cash & bank deposits	-15.6	-18.0	-12.2	-12.8	-28.9	**-87.5**
Total investment income	**-14.2**	**-11.4**	**-8.0**	**-3.5**	**-115.6**	**-152.7**
Trading subs: gross income	**-0.1**	**-0.6**	**-19.6**	**21.5**	**31.2**	**32.4**
Total incoming resources	**-78.2**	**-96.0**	**-387.7**	**90.9**	**42.5**	**-428.5**

Table 23: Change in income from each source by size of organisation, 2000/01-2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals	-43.4	-15.9	-314.9	-35.6	132.3	**-277.5**
Public sector	-4.8	-15.8	43.8	146.5	211.9	**381.6**
Private sector	-12.8	7.4	-6.8	-42.8	-268.0	**-322.9**
Voluntary sector	-2.7	-59.5	-81.3	5.1	49.6	**-88.7**
Internal	-14.6	-12.3	-28.4	17.7	-83.3	**-121.0**
Total	**-78.2**	**-96.0**	**-387.7**	**90.9**	**42.5**	**-428.5**

Table 24: Change in income from each type by size of organisation, 2000/01 - 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Earned income	-44.8	122.1	171.3	123.1	208.8	**580.5**
Voluntary income	-19.3	-206.8	-551.0	-28.6	-50.8	**-856.4**
Investment returns	-14.2	-11.4	-8.0	-3.5	-115.6	**-152.7**
Total	**-78.2**	**-96.0**	**-387.7**	**90.9**	**42.5**	**-428.5**

Table 25: Total income by size of organisation, 2001/02 (%)

Income stream	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals' gifts & donations (gross)	23.2	15.7	11.1	12.1	15.5	**13.6**
Public sector grants	6.4	16.2	24.5	17.3	12.4	**16.9**
National Lottery distributors' grants	4.4	3.2	5.3	2.7	0.8	**2.6**
Voluntary sector grants	7.3	8.2	6.1	5.3	4.1	**5.3**
Private sector gifts & donations	1.2	0.9	2.4	3.0	2.5	**2.5**
Voluntary income (ex legacies)	**42.6**	**44.1**	**49.4**	**40.4**	**35.3**	**40.9**
Legacies	**1.1**	**1.3**	**2.7**	**4.1**	**11.3**	**6.3**
Individuals' fees & payments	26.6	32.1	18.9	18.2	11.2	**16.8**
Public sector fees & contracts	0.8	4.8	12.2	19.6	22.8	**17.7**
Private sector fees & sponsorship	0.6	1.2	2.5	2.3	1.2	**1.8**
Voluntary sector fees & payments	2.0	2.1	1.7	1.5	0.8	**1.3**
Earned income (ex trading subs)	**30.0**	**40.1**	**35.3**	**41.6**	**35.9**	**37.7**
Rent from investment property/land	2.6	1.9	1.5	1.6	1.2	**1.5**
Dividends from equities & securities	12.2	7.8	6.0	4.9	7.7	**6.5**
Interest on cash & bank deposits	11.3	4.7	2.4	1.7	1.1	**2.0**
Total investment income	**26.2**	**14.4**	**10.0**	**8.2**	**9.9**	**10.0**
Trading subs: gross income	**0.1**	**0.1**	**2.7**	**5.7**	**7.6**	**5.2**
Total incoming resources	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 26: Income sources by size of organisation, 2001/02 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals	50.8	48.7	32.5	34.3	38.0	**36.6**
Public sector	11.5	24.0	41.9	39.3	35.8	**37.0**
Private sector	1.8	2.1	4.8	5.2	3.7	**4.3**
Voluntary sector	9.3	10.3	7.8	6.8	4.9	**6.6**
Internal	26.5	15.0	13.0	14.4	17.6	**15.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 27: Income types by size of organisation, 2001/02 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Earned income	30.2	40.2	38.0	47.4	43.5	42.9
Voluntary income	43.7	45.3	52.0	44.5	46.6	**47.1**
Investment returns	26.2	14.4	10.0	8.2	9.9	**10.0**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 28: Total income by size of organisation, 2000/01 (%)

Income stream	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals' gifts & donations (gross)	19.5	15.5	16.7	13.4	15.2	**15.2**
Public sector grants	7.6	16.3	23.5	16.5	11.6	**16.2**
National Lottery distributors' grants	2.7	4.1	4.9	2.7	0.9	**2.7**
Voluntary sector grants	7.2	11.9	7.2	5.4	3.5	**5.7**
Private sector gifts & donations	1.8	0.8	2.5	3.6	5.9	**3.9**
Voluntary income (ex legacies)	**38.9**	**48.6**	**54.7**	**41.7**	**37.0**	**43.7**
Legacies	**0.7**	**6.7**	**3.9**	**4.0**	**10.5**	**6.6**
Individuals' fees & payments	31.6	25.0	15.5	18.1	10.9	**15.5**
Public sector fees & contracts	0.1	3.2	9.8	18.6	21.0	**15.8**
Private sector fees & sponsorship	3.1	0.7	2.2	2.5	1.2	**1.8**
Voluntary sector fees & payments	1.0	1.4	1.6	1.4	0.8	**1.2**
Earned income (ex trading subs)	**35.9**	**30.3**	**29.1**	**40.6**	**33.9**	**34.3**
Rent from investment property/land	1.6	1.6	1.2	1.5	1.2	**1.3**
Dividends from equities & securities	9.7	7.1	5.7	4.9	8.8	**6.8**
Interest on cash & bank deposits	13.2	5.5	2.5	1.9	1.4	**2.3**
Total investment income	**24.4**	**14.3**	**9.4**	**8.3**	**11.4**	**10.5**
Trading subs: gross income	**0.1**	**0.1**	**2.9**	**5.4**	**7.2**	**5.0**
Total incoming resources	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 29: Income sources by size of organisation, 2000/01 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Individuals	51.8	46.8	36.1	35.4	36.6	**37.2**
Public sector	10.4	23.6	38.0	37.4	33.4	**34.5**
Private sector	4.9	1.5	4.6	6.0	7.1	**5.7**
Voluntary sector	8.0	13.3	8.7	6.8	4.3	**6.8**
Internal	24.8	14.8	12.6	14.3	18.7	**15.8**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 30: Income types by size of organisation, 2000/01 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Earned income	36.0	30.5	32.0	46.0	41.1	**39.3**
Voluntary income	39.6	55.3	58.6	45.7	47.5	**50.2**
Investment returns	24.4	14.3	9.4	8.3	11.4	**10.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

7. Charitable giving by the general public

Highlights

- Charitable giving by individuals to all causes was estimated to be worth £7.3 billion in 2002.
- The average monthly donation per person was £12.93.
- The average proportion of the population giving in any one month was 67.3%.
- Around 60% of the total amount donated was accounted for by only 5% of the population.

7.1 Introduction

Charitable giving by the general public arouses more debate and discussion than almost any other issue in the voluntary sector. Whether this is the role of tax breaks, methods of fundraising or the need to court more 'elite givers', everyone has an opinion on individual giving.

Why is this so? Chapter 6 provides the most obvious answer: the importance in financial terms of charitable giving by the public. Voluntary income from individuals provided 13.6% of the sector's total income in 2001/02. But this is not the only reason. Individual donations are important not just as a source of income but also as an indication of the level of trust that the general public have in charities. Giving offers a way in which people can engage with the sector, as well as make a positive contribution to causes they care about.

This chapter looks at the financial importance of individual charitable giving in the UK. Using data from the NCVO/CAF survey of charitable giving, a discussion of overall trends since 1995 is followed by an analysis of the most recently available data for 2002. All figures in this chapter are expressed in 2002 prices to adjust for the impact of inflation.

7.2 Methods and problems of measurement

The trends and information presented in this chapter are based upon surveys of the general public's giving behaviour. Conducted by NOP, the survey has been carried out since 1994. Once a quarter, a sample of around 1,000 people is asked a series of questions about their giving behaviour in the last month, in face-to-face interviews. The questions concern the amounts they give, the causes to which they give, the ways in which they give, and whether they give tax-effectively.

Estimates of individual giving based on surveys of donors are not comparable with estimates derived from charity accounts. Therefore, the estimates of giving in this chapter cannot be directly compared with the income data in Chapter 6. The main reasons are that:

- the charitable giving survey asks individuals about their gifts to any charitable cause. Individuals' definitions of charity are likely to vary and undoubtedly include gifts to schools, churches and other organisations not covered by the general charities definition (Chapter 3); and

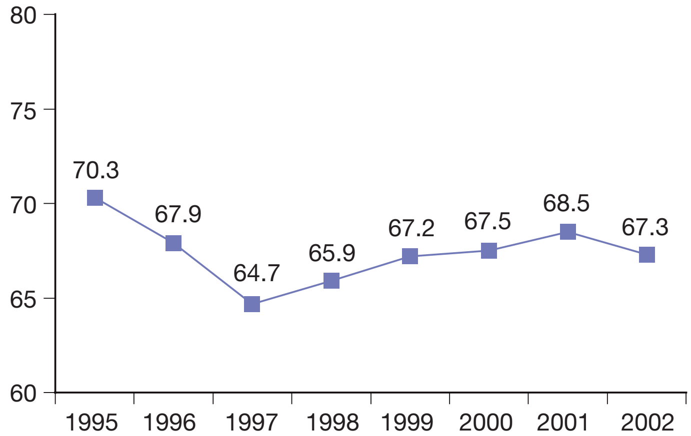
- the survey asks individuals about their 'purchase giving', or amounts given where a good or service may be received in exchange. This could include membership subscriptions, buying a raffle ticket, or buying items in a charity jumble sale. The classification of income types in Chapter 6 treats this 'purchase giving' as earned income from individuals. It is also likely that some of this purchase giving is included in the income of trading subsidiaries.

The impact of these differences in method results in higher estimates of total giving from surveys of individuals. It is also accepted that surveys of individuals are subject to problems such as recall, social desirability (reporting greater levels of generosity than in reality) and the coverage of large gifts (do surveys include elite donors?). Although this makes comparability with accounts-based estimates difficult, such problems are unlikely to disrupt the measurement of trends. Changes in individual giving since 1995 are therefore the subject of the following section.

7.3 Giving trends since 1995

The survey has shown ups and downs in both the percentage of the population donating and the average value of donations since 1995. The percentage of people giving to charitable causes in any particular month fell from 70.3% in 1995 to 64.7% in 1997 (Figure 17). Evidence from the Donations Foresight project indicates that this fall was likely to have been connected to the introduction of the National Lottery in late 1994. It then increased steadily, reaching 68.5% in 2001, before dropping very slightly to 67.3% in 2002.

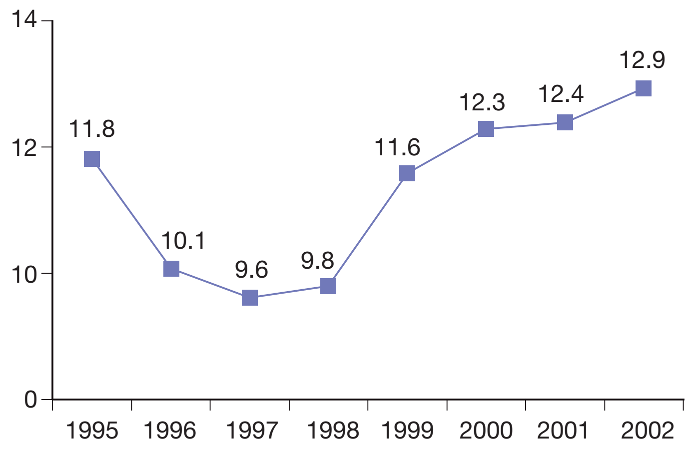
Figure 17: Proportion giving (% population)



Source: NCVO/CAF

The average monthly donation followed a similar trend. From a peak of £11.82 in 1995, it fell to £9.61 in 1997 – again, likely to be connected to the introduction of the National Lottery – and thereafter has been on the increase. In 2002 the average donation stood at £12.93 per person.

Figure 18: Average monthly donation (£)



Source: NCVO/CAF

Estimates of the total amount given are constructed using these data, plus estimates of the UK population aged 16 or over. This method indicates that in 2002 the total amount donated to charity by individuals was £7.3 billion.

This is substantially higher than the £2.8 billion of voluntary income from individuals reported in Chapter 6. If it is assumed that a substantial proportion of the income earned from individuals (£3.5 billion) is 'purchase giving', then the two estimates of giving are much closer together. Finally, as section 7.2 has already noted, the narrow general charities definition is likely to account for the remaining differences. Reconciling these two sets of estimates (and other sources, such as the Family Expenditure Survey) is a key aim for the NCVO/CAF giving research programme.

7.4 Donors and donations: who gives what?

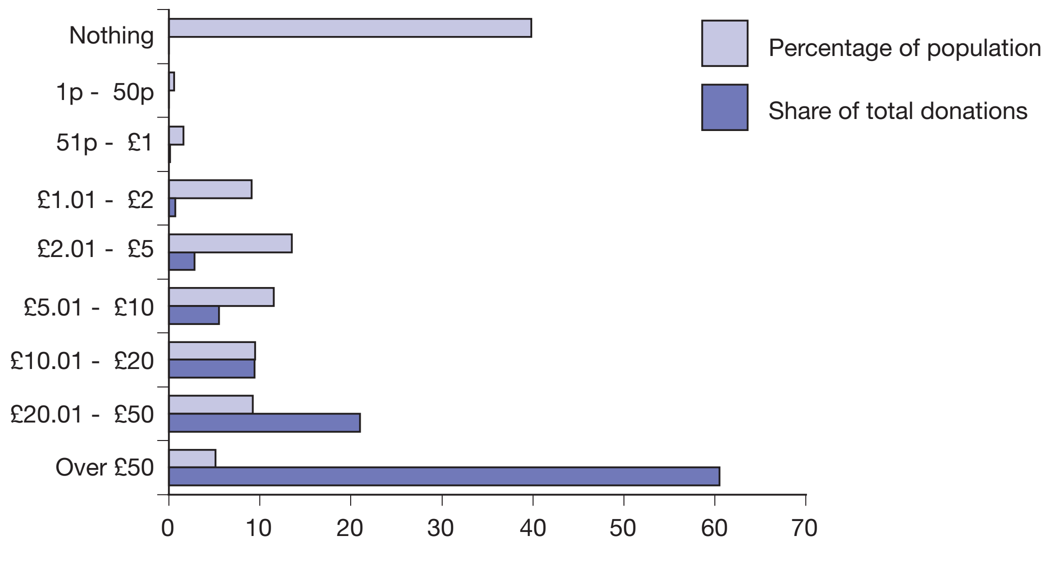
The profile of donors has remained relatively unchanged over recent years. Women are more likely to give than men: 71% of women give each month, compared with 63% of men (Table 31). Women also give more, with average monthly donations of £13.57 as compared with £12.17 for men.

Table 31: Average monthly donations and proportion of people who give

		Average donation (£/month)	Proportion giving to charity (%)
Gender	**Men**	12.17	63.0
	Women	13.57	71.0
Socio-economic group	**AB**	28.22	79.6
	C1	13.89	70.7
	C2	10.32	64.6
	DE	5.81	60.0
Age	**16-24**	6.97	56.1
	25-34	10.98	64.5
	35-44	16.46	71.6
	45-54	15.68	69.1
	55-64	15.39	73.6
	65+	11.49	67.9

Source: NCVO/CAF

Figure 19: Size of monthly donations and proportion of donors (%)



Source: NCVO/CAF

The likelihood that people give, as well as the size of their donations, is closely related to their socio-economic group and age. People in higher social groups are more likely to give than those in lower social groups. They also give larger donations, though this may not be a larger donation in relation to their relative income or wealth. People in age group 55-64 are most likely to give to charity, while those in age group 35-44 give the largest average donations.

While the majority of donations are relatively small, roughly three-fifths of the total amount donated is accounted for by 7.6% of donors (5.1% of the population) who give £50 or more per month. This of course has led to an increasing interest in so-called 'elite donors' and in particular how voluntary organisations can encourage relatively wealthy individuals to give to charity.

7.5 Ways of giving

There are many ways of giving to charity (Table 32), and they can be categorised roughly as loose-change giving, purchase giving and planned or regular giving, although there is of course some overlap between these categories.

It is notable that some ways of giving to charity account for a relatively small proportion of the total amount given, despite their popularity. Examples include door-to-door and street collections, both of which are long-standing, popular methods. One in five donors gave via street collections in 2002, a method that generated 2.9% of total donations. However, the focus of these methods on loose-change and spontaneity means that they account for a relatively small proportion of the total amount given to charity. Moreover, the need for little or no commitment, planning and money on the part of the donor means that these ways of giving are crucial if charities are to continue to engage with a large proportion of the population.

At the other end of the spectrum are ways of giving that generate a large percentage of the total amount donated, but are not in widespread use. Examples include covenants, which generated 8.7% of the total amount donated, despite only being used by 2.5% of donors.

7.6 Charitable causes

Donors gave to a wide range of charitable causes, and these are summarised in Table 33. As in previous years, medical research and children and young people's charities proved to be the most popular causes, with 24.1% and 20.5% of donors respectively. Between them these causes generated almost a third of the total amount donated. Religious organisations continued to enjoy a relatively large proportion of the total amount given compared with the percentage of donors who gave to this cause, suggesting a relatively large donation per donor.

Table 32: Ways of giving

	% donors	% given
Street collection	20.9	2.9
Door to door collection	15.6	3.5
Buying raffle/lottery tickets (excl. National Lottery)	13.8	5.2
Buying in a charity shop	11.8	7.4
Shop counter collection	10.3	1.5
Church collection	10.1	11.8
Sponsorship	7.9	11.9
Collection at work	6.4	4.2
Buying goods for a charity	5.0	3.1
Pub collection	4.9	1.7
Appeal letter	4.7	5.2
Buying in a jumble sale	3.5	1.7
Attending a charity event	3.4	8.3
Subscription/membership fee	2.7	3.7
Covenant	2.5	8.7
Buying through a charity catalogue	2.4	3.6
TV or radio appeal	2.0	1.9
Payroll deduction	1.9	1.6
Telephone appeal	1.0	1.1
Appeal advertisement	0.9	0.8
Affinity card	0.4	0.8
Stocks and shares	0.1	0.1
Other	5.7	9.6

Source: NCVO/CAF

7.7 Tax-effective giving

Public awareness and use of tax-efficient giving has been growing steadily in recent years. This is due to efforts by the Government following the April 2000 changes to tax-efficient giving schemes, and ensuing campaigns by bodies such as the Giving Campaign.

There are a number of ways in which donors can give to charity tax-effectively, and a number of changes introduced by the Chancellor in March 2000 have made it easier for donors to give tax-effectively. The changes include the removal of the £1200 limit on gifts made through payroll giving, and the removal of the minimum limit of £250 for donations that can be 'Gift Aided'. These changes, combined with the efforts of the Giving Campaign have increased awareness of tax-effective giving and helped to promote a culture of giving in general. It is estimated that 59% of the public are now aware of the concept of tax-efficient giving in general.

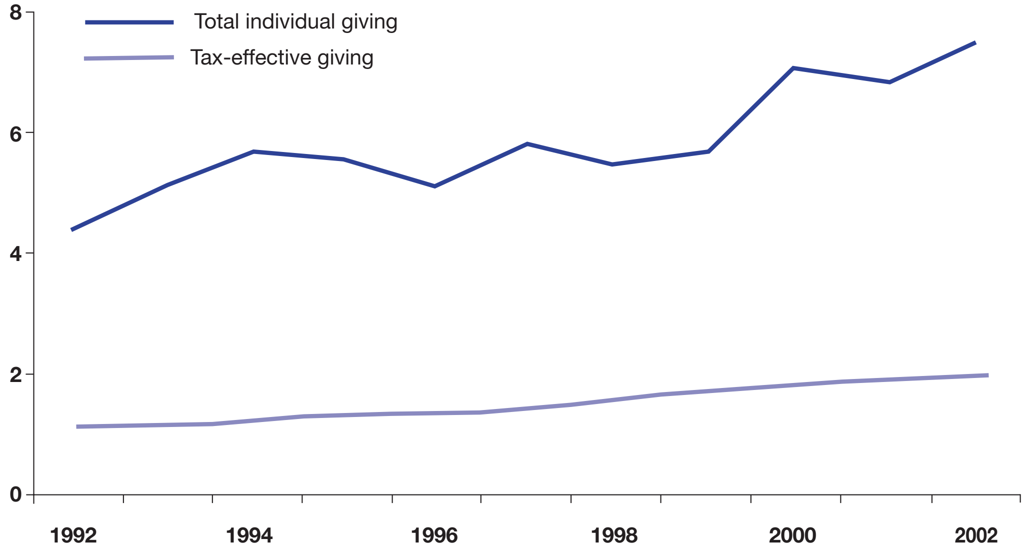
Table 33: Charitable causes' relative popularity

	% donors	% given
Medical research	24.1	16.8
Children or young people	20.5	14.4
Animals	10.9	9.5
Other medical/health care	10.5	9.6
Religious organisations	10.4	13.0
Overseas relief	9.0	10.2
Blind people	6.8	3.9
Disabled people	5.8	2.9
Rescue services	5.3	3.1
Elderly people	5.0	3.3
Education	5.0	3.7
Homeless people	4.6	3.2
Disaster relief	2.1	1.8
The environment	1.9	1.5
Deaf people	1.7	1.1
Heritage	1.0	1.2
Museums, music, art etc.	0.5	0.6
Other	3.7	2.0

Source: NCVO/CAF

According to data from the Inland Revenue, in 2001/02 charities received over £2 billion from the most commonly used tax-efficient methods of giving by individuals. This figure included £437 million in tax reliefs paid back by the Government. The gross giving figure for 2001/02 represents an 8% increase on the previous year. The bulk of this giving (£1.98 billion) was made through Gift Aid, a method which now incorporates covenants. The remainder is made through payroll giving, and is showing the most rapid growth of all tax-efficient giving schemes.

Figure 20: The value of tax-efficient giving (£billion)



Source: NCVO/CAF, Family Expenditure Survey, Inland Revenue

Tax-effective giving – the untapped potential
Amanda Delew, Director, The Giving Campaign

The voluntary sector is hugely dynamic and ever-changing as it reacts and adapts to society around it. Yet one question always remains – where's the money going to come from?

This is particularly pertinent when it comes to the most volatile, least predicable form of income – voluntary donations. It is an area full of innovation and creativity as fundraisers constantly battle to ensure their charity is visible in a competitive market, that they are pushing the right buttons with donors. However, for all the efforts, many are still overlooking a relatively simple opportunity to increase income considerably, without having to recruit new donors and without significant additional cost. What is this wonderful opportunity? Rather prosaically, it is tax-effective giving.

The three main forms of tax-effective giving – Gift Aid, Payroll Giving and Share Giving – have been around in their current forms for over three years yet still only 20% of donations are being given tax-effectively. Charities are missing out on millions of pounds simply by not addressing the 'how' of fundraising as often as the 'how much'. Gift Aid generated over £500 million of extra money for charities last year, yet I regularly come across direct mail appeals and adverts for charities with no details on Gift Aid, let alone a declaration allowing the donor to use the scheme. The Giving Campaign launched a new brand for Gift Aid last year for charities to use as a 'stamp' on their materials, helping them to market it more effectively and raising donor awareness and recognition of the scheme.

Gift Aid, Payroll Giving and Share Giving have the potential to give a massive boost to organisations' fundraising. Like the schemes themselves, the message is simple – take the money.

7.8 Conclusion

Giving to charity is still a popular and widespread activity in the UK. Over two-thirds of the population engage with charitable causes by giving, however small the amounts. An increase in the total amount given since the mid-1990s is of course welcome, but the underlying trend of fewer, albeit more committed, givers should concern those who believe that giving is a barometer of public support.

In the meantime, a key challenge for the sector is take further advantage of the tax breaks now available and to convert more donations to tax-efficient methods. The NCVO/CAF giving research programme will monitor these trends in future years using a new individual giving survey, in partnership with the Office for National Statistics.

7.9 Resources and further reading

All About Giving – a CAF website with information on tax-effective giving: www.allaboutgiving.org/

Banks, J. and Tanner, S. (1997) *The state of donations: household gifts to charity, 1974-96.* London: Institute for Fiscal Studies.

Campbell, B. (2003) *Make Giving Go Further – A fundraiser's guide to tax-effective giving*. London: The Giving Campaign.

Donations Foresight: a research programme sponsored by CAF and NCVO to identify future trends in individual giving. www.donationsforesight.co.uk/

Egan, B. (2003) *Making a Bigger Splash: moving from spare change to planned charitable giving.* London: Social Market Foundation. www.smf.co.uk/

Farsides, T. (1999) *Attitudes towards charitable giving: some focus group results.* School of Social Science, Sussex University (on behalf of NCVO).

The Giving Campaign (2003) *Fundraising and Trustees – The Essential Guide*

The Giving Campaign (2002) *Gift Aid Toolkit*

The Giving Campaign (2003) *Opening Doors for Charities – A Toolkit for Payroll Giving for Charity Consortiums*

The Giving Campaign website – an online tax-effective giving resource centre: www.givingcampaign.org.uk

Halfpenny, P (forthcoming) *Measuring individual charitable giving.* Unpublished paper, Centre for Applied Social Research, University of Manchester. http://les1.man.ac.uk/sociology/casrnew/default.htm

Inland Revenue: Giving to Charity by Individuals. www.inlandrevenue.gov.uk/pdfs/ir65.pdf

Jas, P (2000) *A gift relationship? Charitable giving in theory and practice*. London: NCVO. Available from www.ncvo-vol.org.uk

Inland Revenue: information for donors. www.inlandrevenue.gov.uk/charities/donors.htm

Inland Revenue: statistics on tax-efficient giving. www.inlandrevenue.gov.uk/stats/charities/menu.htm

Institute for Philanthropy – research and policy work on philanthropy: www.instituteforphilanthropy.org.uk

NCVO and CAF (2003) *Inside Research: Charitable giving in 2002.* NCVO/CAF ncvo@ncvo-vol.org.uk

Philanthropy UK – a project of the Association of Charitable Foundations to promote 'new philanthropy'. www.philanthropyuk.org/

New Philanthropy Capital – aims to help donors and charities alike to understand where and how funds can be targeted most effectively. www.philanthropycapital.org/

Walker, C., Pharoah, C., Jas, P., Passey, A. and Romney-Alexander, D. (2002) *A lot of give: trends in charitable giving for the 21st century. London:* Hodder & Stoughton. www.info@dsc.org.uk

Watts, E. and Maio, G.R. (2001) *Why People Donate to Charity: A Social Psychological Perspective.* School of Psychology. Cardiff University (on behalf of NCVO).

8. The National Lottery

Highlights

- National Lottery ticket sales fell in 2001/02, and again in 2002/03. In turn, this has reduced further the funds available to the Lottery distributors.
- General charities received £550 million from National Lottery distributors in 2001/02. This is £16 million less than the amount received in 2000/01.
- Organisations with an annual income between £100,000 and £1 million were the biggest recipients of National Lottery funds. This group received £258 million of Lottery funds in 2001/02, equivalent to 5% of their income.

8.1 Introduction

Funds from the five National Lottery distributors (the 'good causes') provide a significant source of income for the UK voluntary sector. Despite concerns over the falling popularity of the National Lottery games, funds distributed by the good causes continue to support a large number of voluntary and community organisations.

Last year saw media interest in the activities and merger of two of the National Lottery's key distributors – the Community Fund and New Opportunities Fund – as well as continued scrutiny of declining ticket sales. Concerns continue to be voiced about the impact these changes might have on the voluntary sector's income. This chapter therefore offers a short review of National Lottery funds and the voluntary sector.

8.2 The distribution of National Lottery funds

According to National Lottery operator Camelot's statutory accounts for the financial year 2001/02, ticket sales fell 3% on the previous year. In 2001/02 £1,342 million was raised for good causes by the Lottery, representing 27.8% of its total turnover. The decline in ticket sales continued in the financial year 2002/03, according to Camelot's annual accounts, with a drop of 5.4% on the previous year. £1,258 million was raised for good causes in 2002/03.

Proceeds from the Lottery are distributed among five good causes: charities, sport, the arts, and heritage each receive 16.7%; and the New Opportunities Fund, which covers health, education and the environment distributes 33.3%. The 16.7% that goes exclusively to charities is distributed entirely by the Community Fund. This represents 4.7p out of every £1 spent on a Lottery ticket. However, many charities receive funding from the other Lottery distributors, like the new opportunities fund, and therefore Lottery funding of the voluntary sector is not synonymous with the grant-making activities of the Community Fund.

According to data published by the Department for Culture, Media and Sport (DCMS), £333 million was awarded in grants to 'charitable causes', by the Lottery in 2001/02 in the form of 7,398 grants. In 2002/03, £308 million was awarded to charitable causes. These "charitable causes", however, represent only those causes funded by the Community

Fund. For the reasons outlined above, these figures do not represent the full extent of Lottery funding of voluntary organisations, many of which receive grants from other Lottery distributors.

8.3 The National Lottery as a source of income for the voluntary sector

In addition to the data from Camelot's annual accounts and the Department for Culture, Media and Sport, it is also possible to look at general charities' own accounts. Analysis of charities' accounts provides us with a breakdown of National Lottery grants according to size of organisation.

Care must be taken when comparing estimates derived from charities' accounts with data from DCMS for the following reasons:

- grants that are defined as "charitable expenditure" by DCMS are awarded exclusively by the Community Fund. This is likely to significantly underestimate the true amount received by organisations with charitable status, particularly in sub-sectors such as the arts and heritage. Some charities receive grants from a number of Lottery distributors;
- accounting practices are likely to lead to differences in the recording of grants, particularly where funds are intended to be spent over a period longer than twelve months. Timing differences between the financial year of the distributor and the grant recipient will add to this problem; and
- the definition of the voluntary sector used in the Almanac will inevitably result in our analysis excluding Lottery funds distributed to non-general charities.

With these issues in mind, it is easier to understand the difference between the data reported by DCMS and those derived from general charities' accounts.

According to data from charities' accounts, grants from the National Lottery distributors accounted for 2.6% of the voluntary sector's total income in 2001/02, or £550 million (Chapter 6). This figure fell when compared with the amount received in 2000/01 (£566 million); despite the concerns outlined above, this fall would appear to echo the falling amounts available to the good causes. Figure 21 shows how this proportion differs according to size of organisation. It also shows how the proportions changed between 2000/01 and 2001/02.

The proportion of income accounted from Lottery grants was highest for organisations with incomes between £100,000 and £1 million. These organisations received over 5% of their income from the Lottery distributors. The largest general charities received less than 1% of their income from the Lottery. Finally, it is worth noting that a relative small increase in the amount received by general charities with incomes below £10,000 led to a relatively large increase in the proportion of income accounted for by Lottery funds.

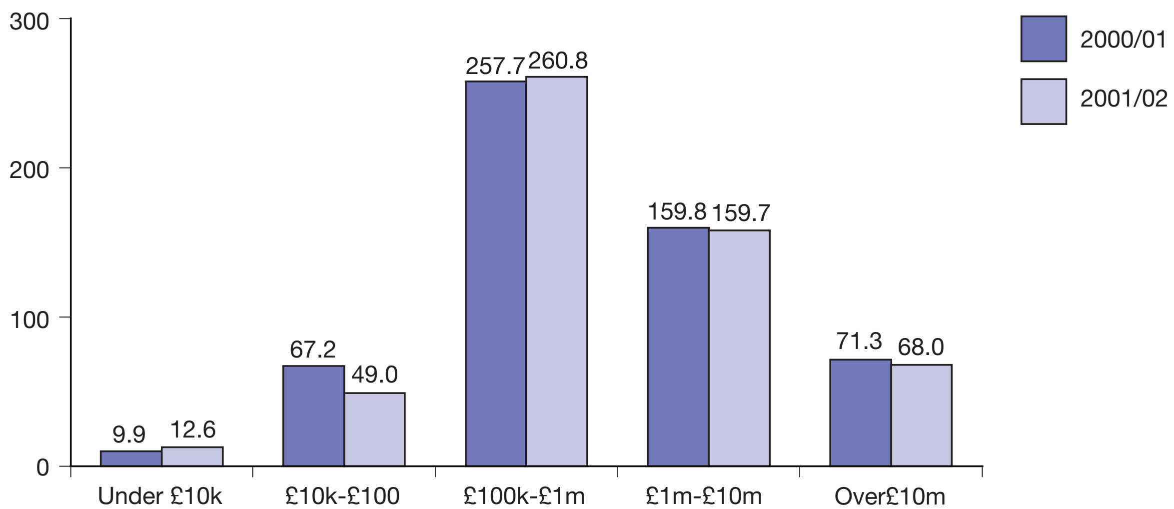
Medium sized organisations – those with incomes between £100,000 and £1 million – also received the largest share of Lottery funds distributed to the voluntary sector. In 2001/02 total Lottery grants to these organisations totalled £258 million. The value of

Lottery grants remained fairly stable between 2000/01 and 2001/02 in contrast with other income streams. This is might be in part due to the award of grants over a several-year period.

Figure 21: National Lottery distributors' contribution to income by size of organisation (%)

Source: Table 22, Table 25

Figure 22: National Lottery income by size of organisation (£million)



Source: Table 13, Table 16

Merging the Community Fund and the New Opportunities Fund: the impact on income to voluntary organisations
Helen Bush, Policy Officer, NCVO

Clearly the National Lottery is a significant source of income for voluntary organisations. Lottery distribution policy is therefore of particular importance to the voluntary and community sector, which has been watching the recent government review of this sometimes controversial institution with interest. As a result of the review, changes will be made to the licensing of the National Lottery operator and to the distribution of money to good causes.

One of NCVO's aims is to protect returns to the existing good causes. The Government has given a commitment to keep the proportion of Lottery money going to arts, sports, heritage and the voluntary sector at least at their current levels until 2009. It is less clear what will happen after that, but the Government's decision document on Lottery Funding provides some clues.

For the first time, new Lottery games will create a hypothecated stream of funding with which to stage a London Olympic Games, should the UK bid be successful. Such an approach undermines the independence of the Lottery. But of greater concern is the ability of the new Lottery game to raise the forecast £750 million towards the cost of hosting the Games. If this target is not reached, and we have considerable doubts that it will be, the remaining contribution could be derived by changing the shares of Lottery income passing to distributors beyond 2009. And in the interim there is a high probability that a new game to raise funds for the Olympics will eat into sales of other games thereby reducing returns to the good causes – a particular worry when ticket sales have not yet returned to growth.

The new Young People's Fund provides the second clue. Like many of the New Opportunities Fund (NOF)'s programmes since 1998, it will have both its budget and the type of projects it will fund specified by the Government. This perhaps suggests that the Government is still wedded to an approach to Lottery funding which undermines the independence of the distributor. We believe that Lottery distributors should have the freedom and independence to decide which projects receive funding, and to decide on funding priorities and programmes, including their inputs and the desired outcomes.

Finally, the merger of the Community Fund and the New Opportunities Fund will create a new 'super distributor' with the ability to fund large-scale 'transformational and regenerative' projects, handle non-Lottery funds and coordinate efforts to increase public access to and awareness of the Lottery. This new 'community distributor' is likely to set the tone for Lottery distribution up to and beyond the next licence period.

Nevertheless, much of the debate about reinvigorating the National Lottery is intimately bound up with ticket sales. Worldwide experience of lotteries is that sales decline after an early peak, but while Camelot and the Government do not believe the UK decline is irreversible, many commentators continue to question whether Camelot can return ticket sales to growth. Only time will tell, but one thing is clear – the voluntary sector will be watching carefully.

8.4 Conclusion

Although this chapter has highlighted the difficulty of precisely reconciling information on Lottery funding from different data sources, it is clear from the different sources that, for the time being at least, income from the National Lottery distributors has peaked.

In contrast to some of the other income streams described in Chapter 6, funds from the National Lottery are not substantial. However, they are important, and the implications of any continued decline on mid-sized organisations – who are already struggling to maintain income levels – will need to be monitored. In a relatively short number of years, funding programmes from the National Lottery distributors have assumed an importance beyond their monetary value alone. The Lottery distributors' support of unpopular causes, physical infrastructure and capacity building – hardly the subject of many individual donors' attention – is likely to leave a legacy of sustainability for a number of years. Maintaining the unique role of Lottery funding is the responsibility of all stakeholders.

8.5 Resources and further reading

Department for Culture, Media and Sport website:
http://www.lottery.culture.gov.uk/

Camelot website:
http://www.camelotgroup.co.uk/index.jsp

Institute for Fiscal Studies – Charitable Giving and the National Lottery:
www.ifs.org.uk/charities/lottery.shtml

Lottery Monitor – a subscription-based newsletter covering all aspects of National Lottery funding:
www.lottery-monitor.com

National Lottery Commission website:
www.natlotcomm.gov.uk/

National Lottery website (including links to all the distributors):
http://www.lotterygoodcauses.org.uk/

NCVO website for briefings and submissions on National Lottery policy:
www.ncvo-vol.org.uk

9. The cost of charity tax reliefs to the Exchequer

Highlights

- Tax reliefs were worth £2.8 billion in 2002/03.
- Irrecoverable VAT is estimated to cost charities £430 million.

9.1 Introduction

Although it is now some time since the last Charity Tax Review in 2000, the subject of charity taxation remains topical. UK charities have an important fiscal relationship with the Exchequer: they benefit from a range of different tax reliefs, which either subsidise expenditure or increase the value of income. The most commonly recognised examples of the two types of tax relief are:

- the reduced level of uniform business rates paid by charities on premises that they occupy; and
- the additional income charities can reclaim on tax-efficient donations, where the donor is a UK taxpayer.

The gross income of general charities described in Chapter 6 includes the value of both the original donation and the associated tax relief. Conversely, Chapter 12 estimates general charities' actual expenditure and therefore does not include the value of expenditure-side tax reliefs (for example, amounts *not* paid out on uniform business rates). On the debit side, charities incur some indirect taxes that they are not able to reclaim such as VAT. This chapter provides a short overview of these tax reliefs to UK charities.

9.2 The value of charity tax reliefs

Table 34 shows that tax reliefs relating to charities cost the Exchequer almost £2.8 billion in 2002/03, compared with £2.6 billion in 1997/98. The total figure does not include the cost of several important reliefs for which no data are available, such as capital gains tax relief on donations. The table includes both reliefs benefiting charities directly and those benefiting donors.

The value of tax credits reclaimed on dividends (transitional dividend relief) has fallen from £264 million in 1999/00 to £97 million in 2002/03. This fall is of course related to the gradual withdrawal of Advance Corporation Tax (ACT) credits on dividends. The fall in investment income highlighted in Chapter 6 corresponds to the reduction in transitional dividend relief.

Basic rate relief on Gift Aid increased significantly to £506 million in 2002/03, with higher rate taxpayers reclaiming an additional £220 million. Conversely, basic rate tax relief on covenants fell to £6 million in 2002/03 as the simplified Gift Aid arrangements reduced the use of covenants. As Chapter 7 indicates, the post-charity tax review introduction of fiscal incentives designed to create a 'culture of giving' in the UK are likely to have increased the value of these reliefs.

In total, gross tax reliefs were worth an estimated £2,625 million to charities, with an additional £580 million relief to higher rate taxpayers. Whilst these are worth £3,205 million in total, the continuing problem of irrecoverable VAT must be offset against this total. Current best estimates suggest that irrecoverable VAT costs charities £430 million annually, thus reducing the overall value of tax reliefs to £2,775 million.

Table 34: The value of UK tax reliefs relating to charities (£million)

	1999/2000	2000/01	2001/02	2002/03
Reliefs costed by Revenue (A)				
Transitional dividend relief	264	195	150	97
Covenants	305	188	22	6
Gift Aid basic rate payments to charities	208	222	415	506
Gift Aid higher rate relief for donors	100	140	190	220
Payroll giving	9	20	25	30
IHT death transfers	310	370	340	330
Uniform business rate relief	630	660	710	740
Schedule D Case I primary charity trading	930	800	830	890
VAT reliefs	150	150	150	200
Total	**2,906**	**2,745**	**2,832**	**3,019**
Reliefs costed from other sources (B)				
Rental income	70	70	70	96
Capital Gains Tax on disposals by charities	90	90	90	90
Known cost of charity tax reliefs (A) + (B)	**3,066**	**2,905**	**2,992**	**3,205**
Less: irrecoverable VAT	**-430**	**-430**	**-430**	**-430**
Net cost to the Exchequer	**2,636**	**2,475**	**2,562**	**2,775**

Source: Inland Revenue

9.3 Conclusion

The increase in the value of charity tax reliefs in recent years is indicative of the more favourable fiscal environment created by government. It has not all been good news though: measures to withdraw tax relief on dividends have hurt grant-making trusts and foundations in particular. Moreover, addressing the burden of irrecoverable VAT continues to be the main fiscal change proposed by the Charities' Tax Reform Group. Nevertheless, as Chapter 7 also concluded, the conversion of more donors (and donations) to tax-efficient methods provides a real opportunity for the sector to take further advantage of the changes to charity tax introduced in 2000.

9.4 Resources and further reading

Charities' Tax Reform Group – a membership organisation that campaigns on behalf of charities to seek changes in tax legislation. www.charitytax.info/

HM Customs and Excise: Charities and VAT FAQs.
www.hmce.gov.uk/business/vat/charityfaqs.htm

Inland Revenue: information for charities.
www.inlandrevenue.gov.uk/menus/charity.htm

Inland Revenue: statistics and guidance on tax reliefs for charities.
www.inlandrevenue.gov.uk/stats/charities/menu.htm

10. The paid workforce

Highlights

- The Labour Force Survey indicates that the total workforce in 2002 was 569,000, or 471,000 full-time equivalent staff. This was 2% of the UK workforce.
- Almost two-thirds of the paid workforce (64.3%) was full-time.
- Most general charities with incomes of over £1 million were employers in 2001/02. 28.1% of all general charities were employers.
- Average earnings in the sector increased by 4.4% in 2002 and by 6.3% in 2003.

10.1 Introduction

This chapter illustrates the size, characteristics and remuneration of the UK voluntary sector paid workforce. The voluntary sector has been an important employer for a number of years, both in terms of the numbers employed and the opportunities offered to those who have traditionally found themselves excluded from mainstream labour markets. For many working in voluntary organisations, the sector is a career choice.

It continues to be the case that smaller voluntary and community-based organisations are predominantly reliant upon the unpaid work of volunteers. Nevertheless, this analysis suggests that an increasing number of voluntary organisations are now employers. These organisations are competing with their public and private sector counterparts for skilled staff, which in turn impacts upon salary and benefit levels. The key issues of skills needs and salary levels are also highlighted in this chapter.

10.2 Sources of data

A number of sources have been used to bring together the information in this chapter. Estimates of the total size of the voluntary sector workforce can be constructed either from charity accounts, or the UK Labour Force Survey (LFS). At the time of writing, we believe that the LFS provides the most accurate estimate of total workforce.

The LFS is a regular, large-scale survey of individuals carried out by the Office for National Statistics. It provides detailed estimates of the workforce size and characteristics. This is particularly useful as it enables direct comparison with the public and private sectors. Estimates from the LFS are for the calendar year 2002.

Information on staff numbers is also available from charities' annual reports. The Almanac has largely been constructed from a survey of general charities' annual reports, and these have been used to provide an alternative estimate of the number of paid staff. However, we believe the LFS provides a more reliable estimate.

Annual reports also give an indication of the number of employers, but unlike the LFS they offer no information about the actual workforce. These estimates, which use the general charities definition employed elsewhere in the Almanac, are for the financial year 2001/02.

Finally, this chapter also uses information gathered from two major surveys of UK voluntary organisations. Remuneration Economics' *Annual Voluntary Sector Salary Survey* provides detailed information on pay and conditions for the year to July 2003. *Futureskills 2003*, a large-scale survey undertaken for the Voluntary Sector National Training Organisation, provides detail on recruitment issues and their associated skills deficiencies.

10.3 Recent trends in the voluntary sector paid workforce

The sector's role as an employer continues to deepen and widen, while competition in the labour market remains strong. Research by NCVO and the Voluntary Sector National Training Organisation suggests that hard-to-fill vacancies are widespread, and that these reflect skills shortages and uncompetitive remuneration levels. But wider economic pressures are evident: in the face of falling reserves and operating income, a few high-profile voluntary organisations have sought to control costs by making redundancies.

The voluntary sector workforce has traditionally been categorised into two complementary groups – paid staff and volunteers – with further sub-groups (full-time and part-time, trustees and volunteers). A large majority of voluntary organisations continue to rely solely upon volunteers, although a number of factors are driving the recruitment of paid employees. In particular, the increased demands of delivering public services, often through partnerships, have contributed to increases in the number of voluntary sector employees and employers. This basic workforce model is illustrated in Figure 23.

Figure 23: The voluntary sector workforce

No staff (trustees only)	Volunteers only	Mainly volunteers with some paid workers	Predominantly paid workers with some volunteers	Paid workers only
Trustees				

Voluntary organisations are situated across this continuum, though many will move towards the right during their life-cycle as they formalise and attract resources. Typically an organisation may start life with the involvement of trustees only. As the organisation gathers momentum it attracts volunteers and growth becomes more formalised. Paid staff are then employed to supplement and co-ordinate volunteers and then to do some of the work once carried out by volunteers. These categories are of course blurred in reality, and the overlap between trustees, volunteers and beneficiaries is sometimes considerable.

For those organisations increasingly reliant upon paid staff, evidence suggests that employees are relatively well educated and motivated (Table 35). But skills deficiencies continue to limit the effectiveness of the sector, while anecdotal evidence suggests the lack of a training culture. Continuing professionalisation may lead to the development of a greater variety of career options in the voluntary sector, but the main threat to workforce development is perhaps competition from other sectors for skilled employees.

Table 35: The paid workforce: strengths, weaknesses, opportunities and threats

Strengths	Weaknesses
Flexibility Diversity Well educated Knowledge/Interaction/Overlap with beneficiaries Job satisfaction and motivation	Skills deficiencies: management Training under-resourced (time, money) Work-life balance (lack of time) Confusing, often informal learning opportunities and qualifications Short contracts/job security
Opportunities	**Threats**
Post-Spending Review 2002 agenda Professionalisation and career progression Growing sector: more, wider opportunities Voluntary sector-specific qualifications Unionisation Quality standards (e.g. Investors in People)	Competition from public/private sector for skilled workers Rising employment costs (salaries, pensions) Insufficient skills for changing role Voluntary sector fatigue, lost motivation

10.4 The paid workforce: LFS-based estimates

The LFS estimates that the total voluntary sector workforce in 2002 was 569,000, a small increase (6,000) on the total reported for the year 2000. This measure includes both full-time and part-time staff, and is illustrated in Table 36. As a proportion of the total UK workforce, the sector's share remained static at 2%, or 1 in 50 paid staff.

Table 36: Total workforce 1995-2002 (Headcounts, 000s)

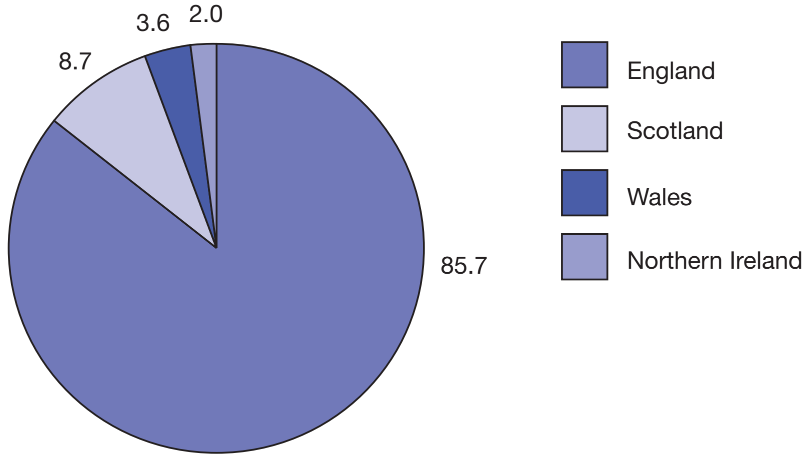
	1995	1998	2000	2002
Private sector	19,095	20,288	20,711	21,054
Public sector	6,042	5,940	6,246	6,268
Voluntary sector	478	536	563	569
Total	**25,616**	**26,764**	**27,520**	**27,891**

Source: LFS

The public and private sectors saw large increases in their staff headcounts over the period between 2000 and 2002. Workforce in the voluntary sector grew by 1.1% between 2000 and 2002, whilst the public sector grew by 0.4% and the private sector by 1.7%.

The geographical distribution of paid staff in the voluntary sector is similar to that of the wider UK paid workforce. The LFS suggests that almost nine in ten paid staff were based in England, with Scotland accounting for a majority of the remainder (Figure 24).

Figure 24: Total voluntary sector workforce by nation, 2002



Source: LFS

A more accurate indicator of the size of the paid workforce is the number of full-time equivalents (FTEs). This measure reflects the paid human resource available to the sector by converting hours worked by part-time staff into the equivalent of full-time staff (Table 37). It is estimated that the number of FTE paid staff was 471,000.

An increase of 20,000 FTE employees in two years was obviously larger than the 6,000 increase in the employee headcount. The much larger increase in FTEs reflects a workforce where more staff were working full-time, and where the average hours worked by part-time staff increased since 2000.

Table 37: Total workforce, 1995-2002 (FTEs, 000s)

	1995	1998	2000	2002
Private sector	16,756	17,800	18,139	18,393
Public sector	5,193	5,019	5,290	5,386
Voluntary sector	380	422	451	471
Total	**24,324**	**25,239**	**25,880**	**26,252**

Source: LFS

The FTE total of 471,000 is equivalent to 82.8% of the headcount. This is a lower proportion than in the private (87.4%) or public (85.9%) sectors. The reason is twofold: a larger proportion of employees in the voluntary sector are part-time (Table 42), and part-time in the voluntary sector staff work fewer hours than in the private sector.

10.5 The paid workforce: annual report-based estimates

The estimate of 471,000 FTE paid staff in the voluntary sector is estimated using the Labour Force Survey (LFS), a survey of individuals. Respondents identify themselves as working in the voluntary sector, though there are concerns that this might lead to under-reporting of the voluntary sector workforce.[8] The figure of 471,000 FTEs may therefore be too low an estimate.

An alternative method of estimating the size of the voluntary sector workforce is to collect information from employers – an establishment-based measure. This uses organisations' annual reports. This is again problematic – a different definition of the sector and differences in the reporting of FTEs and headcounts cloud the estimates. The picture is further complicated by the inclusion of overseas staff in the annual reports of UK-based charities.

Table 38 provides this alternative measure of the voluntary sector workforce, based on the general charities definition. This method suggests that the full-time equivalent workforce totalled 549,000 in 2001/02, and that this figure increased from 533,000 in 2000/01. These totals, and the rate of increase, were much higher than those derived from the LFS (which is our preferred estimate of total workforce).

These figures are likely to be an overestimate, primarily due to the occasional reporting of headcounts instead of FTEs in charity accounts.[9] There are also significant differences from the geographical distribution of workforce reported in the LFS.

Table 38: General charities' total workforce, 2001/02 (FTEs, 000s)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
England	2.8	20.8	117.6	123.6	165.6	**430.3**
Scotland	4.3	25.5	32.4	14.8	4.4	**81.4**
Wales	0.2	1.0	5.8	4.3	3.1	**14.4**
Northern Ireland	0.4	3.2	11.6	7.8	0.0	**22.9**
Total	**7.7**	**50.6**	**167.3**	**150.4**	**173.1**	**549.1**

Source: NCVO, NICVA, SCVO, WCVA

[8] Categorisation in the LFS is designed primarily to distinguish between the public and private sectors, which may limit respondents' selection of the voluntary sector as sector of employment.

[9] The charities' SORP requires reporting of FTEs only; however, we believe some annual reports report staff numbers as headcounts.

However, there is no reason to believe that the rate of increase between 2000/01 and 2001/02 is incorrect, as estimates are derived from the same sets of accounts. The rate of increase across the sector was 3%, although staff numbers fell by 8.6% in the group of general charities with an income of less than £10,000.

General charities with incomes between £1 million and £10 million saw the largest increases in staff numbers. These organisations also saw the largest increases in income (Chapter 6) and staff costs (Chapter 8) over the same period. This was likely to have been driven by public sector grants and contracts for the delivery of services.

How representative was the average increase in the number of staff? Table 39 shows the proportion of general charities in each income band that experienced an increase, decrease or no change in their number of staff. A large majority of the smallest organisations experienced no change in the number of staff they employed between 2000/01 and 2001/02. Where change did occur, organisations were more likely to report a fall in the number of FTE staff. Larger organisations were more likely to report increases in the number of staff: almost three-quarters of general charities with an income of over £10 million reported an increase.

Table 39: Proportion of general charities experiencing a change in total workforce between 2000/01 and 2001/02, by size of organisation (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All*
Workforce increased	6.3	19.6	40.9	59.4	73.9	**14.8**
No change	81.3	71.1	42.3	15.6	3.4	**73.0**
Workforce decreased	12.5	9.3	16.8	25.0	22.7	**12.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Weighted to reflect the number of UK general charities in each income band
Source: NCVO, NICVA, SCVO, WCVA

Comparison with earlier benchmarks gives an indication of longer-term change in general charities' total paid workforce. This indicates that the number of FTEs increased from 318,000 in 1994/95 to 566,000 (Table 40). As was the case for income, the largest organisations accounted for a disproportionate share of this resource.

10.5.1 Voluntary sector employers

As the number of voluntary organisations and the size of the voluntary sector workforce have increased in recent years, so has the number of employers in the voluntary sector. Analyses of general charities' annual reports for 2001/02, plus a benchmark survey of general charities in 1997, provide evidence of change.

Our analysis indicates that 28.1% of general charities were employers in 2001/02, an increase compared with 1997 (Table 41). This in turn suggests that the number of voluntary sector employers increased from 35,700 to 41,600.

In apparent contradiction to the total increase in employers, the proportion of small organisations employing staff fell when compared with 1997. This might reflect the different survey methods and samples, and should be interpreted with some caution.

Table 40: General charities' share of total paid workforce, by size of organisation (% and 000s)

	Under £100k	£100k-£1m	£1m-£10m	Over £10m	Total (%)	FTEs (000s)
1994/95	17.2	29.2	27.3	26.2	100.0	318
1997	14.9	36.1	29.2	19.9	100.0	485
2001/02	11.4	30.7	27.1	30.7	100.0	566

Source: NCVO, NICVA, SCVO, WCVA, ONS

Table 41: Proportion of organisations with paid employees, by size of organisation (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
1997	5.0	51.0	81.0	90.0	96.0	**26.4**
2001/02	4.2	24.2	72.9	91.2	96.7	**28.1**

Source: NCVO, NICVA, SCVO, WCVA
*Weighted to reflect the number of UK general charities in each income band

10.6 Working status and hours worked

The voluntary sector continued to draw staff attracted by flexible working conditions such as part-time hours. Evidence from the LFS indicates that compared with the public and private sectors, a larger proportion of the voluntary sector workforce was part-time. Table 42 shows that almost two-thirds of employees (64.3%) in the voluntary sector were full-time, and one-third were part-time.

Full-time staff accounted for a higher proportion of the workforce in 2002 than in previous years, though it is unclear whether this is a long-term trend (Table 43). Most employees (78.8%) were part-time by choice: less than one in ten part-time staff were unable to find full-time work (Figure 25).

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Table 42: Total workforce, by employment status, 2002 (000s and %)

	Headcount (000s)		
	Full-time	Part-time	Total
Private sector	16,180	4,874	**21,054**
Public sector	4,396	1,872	**6,268**
Voluntary sector	366	203	**569**
All workforce	**20,941**	**6,950**	**27,891**

	Proportion within each sector (%)		
	Full-time	Part-time	Total
Private sector	76.8	23.2	**100.0**
Public sector	70.1	29.9	**100.0**
Voluntary sector	64.3	35.7	**100.0**
All workforce	**75.1**	**24.9**	**100.0**

Source: LFS

Table 43: Voluntary sector workforce, by employment status, 1995-2002 (%)

	1995	1998	2000	2002
Full-time	63.8	62.3	62.7	64.3
Part-time	36.2	37.7	37.3	35.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: LFS

Temporary employment was slightly more widespread amongst voluntary sector employees than in other sectors (Table 44). However, nine out of ten staff regarded their employment as permanent. (It is worth noting that the definition of permanent employment is likely to include those on fixed-term contracts.) Reasons for temporary working included an inability to secure permanent status – almost 30% of those on temporary contracts wanted permanent status.

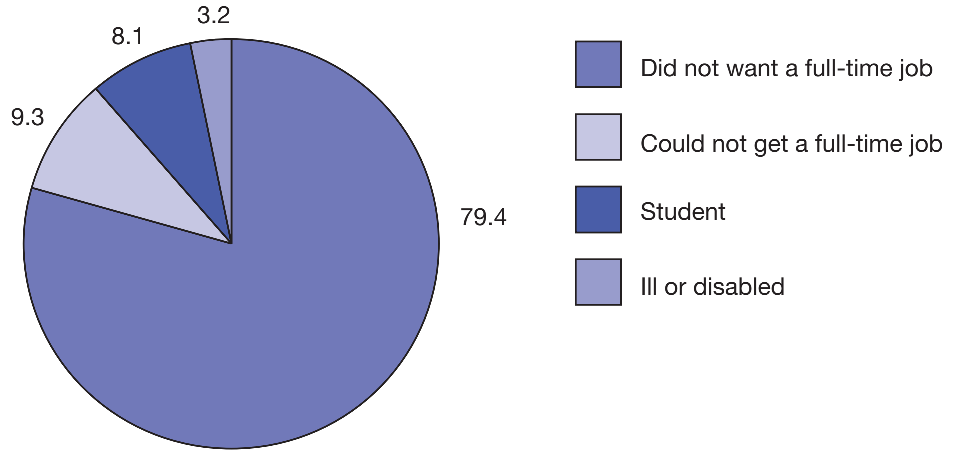
Table 45 shows that on average, full-time staff worked almost 42 hours per week, less than their counterparts in the public and private sectors. Part-time staff worked on average almost 20 hours per week.

Table 44: Permanent and temporary working arrangements, 2002 (%)

	Permanent	Temporary	Total
Private sector	95.1	4.9	**100.0**
Public sector	91.0	9.0	**100.0**
Voluntary sector	89.2	10.8	**100.0**

Source: LFS

Figure 25: Reasons for part-time working, 2002 (%)



Source: LFS

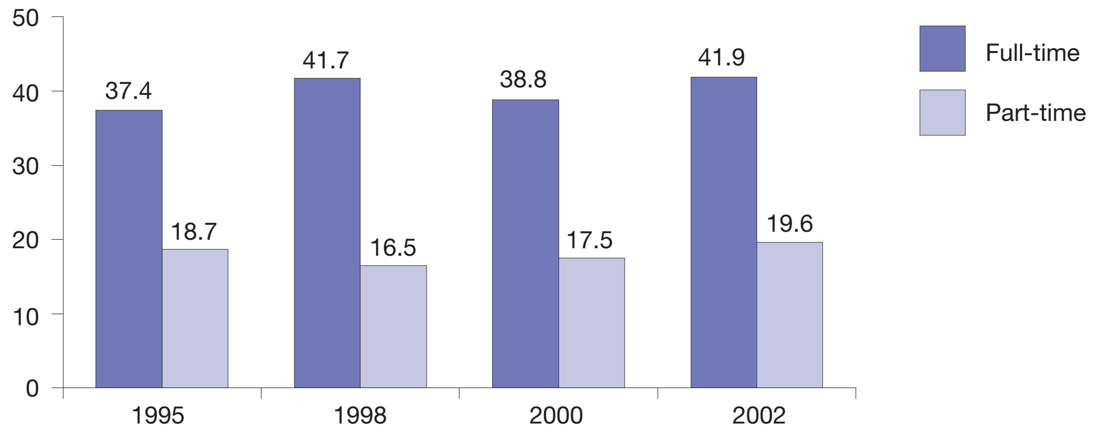
Table 45: Average hours worked, including paid overtime, 2002 (hours)

	Full-time staff	Part-time staff
Private sector	44.4	18.2
Public sector	42.1	19.8
Voluntary sector	41.9	19.6
All workforce	43.9	18.7

Source: LFS

The average number of hours worked by staff in the voluntary sector in 2002 was higher than at any point since NCVO first analysed the LFS in 1995 (Figure 26). Hours worked by both full-time and part-time staff increased, although the same trend was evident in the public and private sectors. This might be evidence of the greater pressure on resources highlighted elsewhere in the Almanac.

Figure 26: Average hours worked by the voluntary sector workforce, including paid overtime, 1995-2002



Source: LFS

10.7 Workforce diversity: ethnicity, gender and disability

The Labour Force Survey provides some detail of the voluntary sector workforce's characteristics. 5.6% of employees working in the voluntary sector described themselves as non-white, compared with 6.5% in the public sector and 6.3% in the private sector. In contrast with the public and private sectors, the proportion of non-white employees in the voluntary sector fell slightly. It is unclear whether this was indicative of any longer-term trend, and may simply be a result of the increasing absolute size of the workforce.

Women continued to account for the majority of the voluntary sector workforce (Table 46). Over two-thirds of the workforce were women, a small increase on previous years. There was a strong link between gender and full-time or part-time status: women were more likely to work part-time than full-time, and men were more likely to work full-time than part-time.

Table 46: Employment by gender, 2002 (%)

	Men	Women	Total
Private sector	61.1	38.9	**100.0**
Public sector	36.6	63.4	**100.0**
Voluntary sector	33.5	66.5	**100.0**

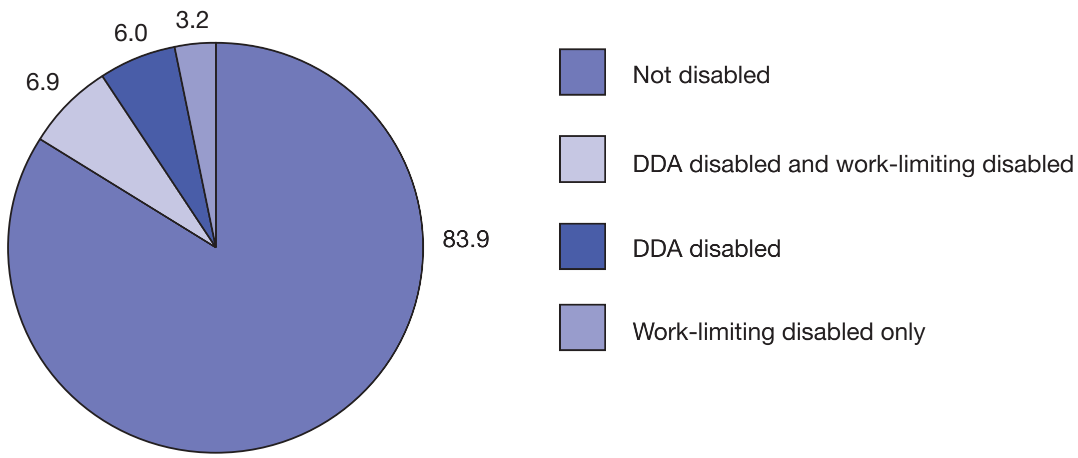
Source: LFS

One in ten of the voluntary sector workforce (10.1%) reported a work-limiting disability in 2002, a slightly larger proportion than in the public (8.6%) or private sectors (8.5%). A further 6% of the workforce classified themselves as having a disability that does not limit their ability to work.

A smaller proportion of the voluntary sector reported a work-limiting disability than in 2000. A contrasting trend in the public and private sectors may reflect a widening of opportunities traditionally only available in voluntary organisations.

Figure 27 shows the distribution of self-reported disability status in the voluntary sector. It is apparent that not all workers with a DDA (Disability Discrimination Act) defined disability regard their disability as work-limiting. Accordingly, 6% of the workforce were DDA disabled without their disability being work-limiting. By contrast, 3.2% of the sector's employees reported a disability as work-limiting, even though their disability was not recognised by the DDA.

Figure 27: Self-defined disability in the voluntary sector workforce, 2002 (%)



Source: LFS

10.8 Voluntary sector industries and occupations

Although the voluntary sector covers a wide variety of functions and areas of interest, the paid workforce is heavily concentrated in service-providing activities. The system used by the LFS to classify activity, the 1992 Standard Industrial Classification (SIC92), was not designed with the voluntary sector in mind and thus analysis is limited. It does, however, give an indication of which sub-sectors are important employers. Headcounts and percentages are presented in Table 47 and Table 48.

In 2002, over half of the voluntary sector workforce (50.9%) was classified as working in the two social work categories, equivalent to 289,000 employees. In particular, employment in 'Social work (other)' continued to rise sharply, and was responsible for much of the growth in total employment. In fact, an increase of almost 24,000 paid staff in this category offset decreases in the education, health, religion and housing categories.

The increase in social work employment between 1995 and 2002 was exceeded by a concurrent increase in the private sector over the same period. A fall in public sector employment in the social work category over the same period was outweighed by increases in the private and voluntary sectors. This is illustrated in Figure 28, which highlights changes in total employment in four key areas of public services: social care, development and selling of real estate (i.e. housing), and hospital activities.

Figure 28 shows that with the exception of social work, the voluntary sector's headcount and share of employment in other public service areas fell slightly since 1995 (albeit after rising in the intervening period). This was greatest in the education categories, which are combined in the chart. However, across these key public service areas, voluntary sector employment rose by almost 8,000 staff.

Table 47: Voluntary sector workforce by SIC92 category (000s)

	1995	1998	2000	2002
85.32 Social work (other)	143.4	197.1	214.4	238.2
85.31 Social work (residential)	59.7	56.0	57.5	51.0
91.31 Religious activities	39.3	34.4	40.7	33.4
70.11 Development and selling of real estate	19.3	26.9	30.9	24.0
85.11 Hospital activities	29.6	33.5	30.4	24.2
80.21 General, secondary education	33.6	38.8	26.8	24.5
91.33 Other membership activities	21.8	22.8	17.3	18.5
80.10 Primary education	13.7	12.7	15.2	12.4
Special education, primary (not classified)	8.8	10.6	10.3	9.0
92.52 Museum activities	7.4	11.2	9.7	12.3
52.11-52.63 Retail general	6.0	6.9	7.9	8.6
All other SIC92	95.7	84.8	102.0	112.9
Total employment	**478.3**	**535.7**	**563.0**	**569.0**

Source: LFS

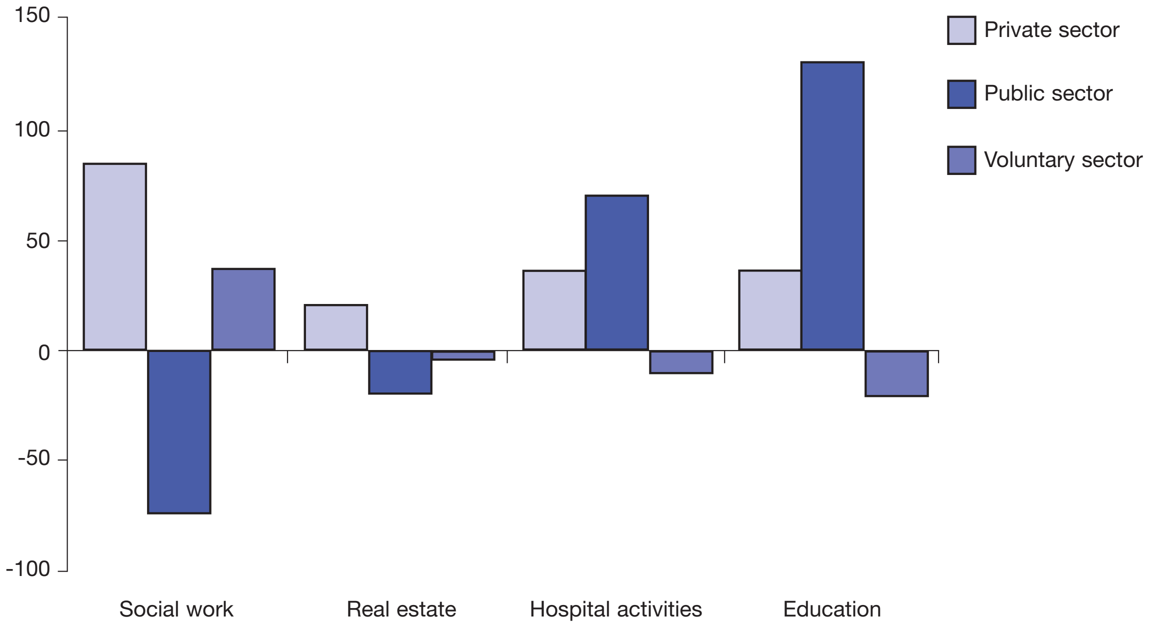
Table 49 illustrates the different occupations within each sector using the Standard Occupational Classification (SOC). The Office for National Statistics uses this system to classify types of work undertaken.

Table 48: Voluntary sector workforce by SIC92 category (%)

	1995	1998	2000	2002
85.32 Social work (other)	30.0	36.8	38.1	41.9
85.31 Social work (residential)	12.5	10.5	10.2	9.0
91.31 Religious activities	8.2	6.4	7.2	5.9
70.11 Development and selling of real estate	4.0	5.0	5.5	4.2
85.11 Hospital activities	6.2	6.3	5.4	4.3
80.21 General, secondary education	7.0	7.2	4.8	4.3
91.33 Other membership activities	4.6	4.3	3.1	3.3
80.10 Primary education	2.9	2.4	2.7	2.2
Special education, primary (not classified)	1.8	2.0	1.8	1.6
92.52 Museum activities	1.5	2.1	1.7	2.2
52.11-52.63 Retail general	1.3	1.3	1.4	1.5
All other SIC92	20.0	15.8	18.1	19.8
Total employment	**100.0**	**100.0**	**100.0**	**100.0**

Source: LFS

Figure 28: Change in total employment in selected categories, 1995-2002 (000s)



Source: LFS

Table 49: Standard Occupational Categories, 2002 (%)

	Public sector	Private sector	Voluntary sector
Associate professional and technical	22.6	10.7	21.7
Personal service occupations	13.7	4.9	19.0
Managers and senior officials	6.7	16.6	17.8
Administrative and secretarial	18.3	11.5	15.6
Professional occupations	23.5	8.1	14.0
Elementary occupations	10.4	12.8	5.7
Skilled trades occupations	2.8	14.9	3.4
Sales and customer service occupations	0.5	10.1	1.8
Process, plant and machine operatives	1.4	10.5	1.0
Total	**100.0**	**100.0**	**100.0**

Source: LFS

The largest individual category was the 'Associate professional and technical' group, covering over a fifth of the workforce. This group covers a range of occupations, including welfare, community and youth workers. The personal services occupational group (19% of the workforce) also covers social care activities, and unsurprisingly grew significantly since 2000. This group includes care assistants and attendants.

10.9 Skills deficiencies in the voluntary sector

The increase in employment across all sectors has exacerbated recruitment and retention problems within the voluntary sector. In turn, this has contributed to skills deficiencies known as skills shortages and skills gaps. It has also placed upwards pressure upon employment costs as voluntary organisations compete for a limited pool of skilled workers (Chapter 8). Data from *Futureskills 2003*, a survey of 1,000 UK voluntary organisations, provides an insight into these issues.

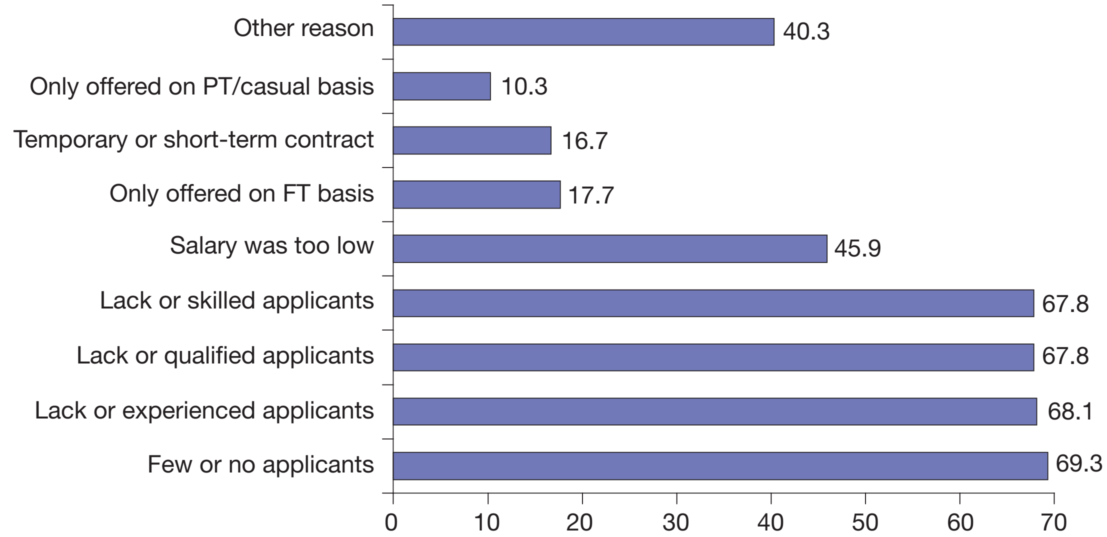
10.9.1 Recruitment problems

Recruitment for many voluntary organisations was (and still is) problematic in 2003. *Futureskills 2003* estimated that 47% of organisations with vacancies experienced problems recruiting paid staff. Unsurprisingly, smaller organisations with fewer staff found the labour market less problematic. In contrast, the DfES' *Employers Skill Survey* found that 16% of businesses had trouble recruiting.

Job roles that were hard to fill included care workers, project workers and support workers. The reasons for recruitment difficulties are illustrated in Figure 29. A wide variety of reasons for recruitment difficulties were cited, but three of the four main reasons – a lack of skilled, qualified or experienced applicants – are associated with skills shortages.

However, it is also worth noting that almost one in two organisations believed that salary levels were a factor in recruitment difficulties.

Figure 29: Reasons for recruitment difficulties in the voluntary sector



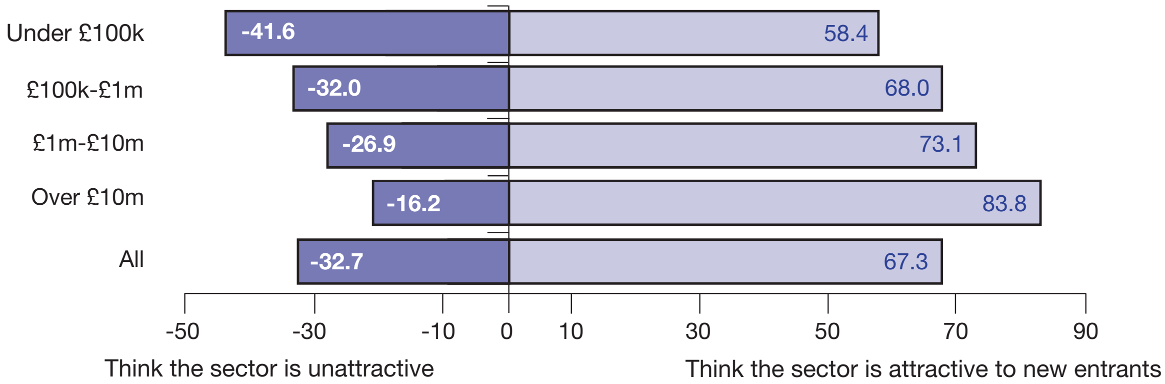
Source: *Futureskills 2003*

Evidence suggests that the impact of recruitment difficulties includes an inability to meet existing objectives, start new projects or meet quality standards. However, the survey found that one in two organisations were pessimistic about their ability to recruit in the future.

An indicator of future recruitment difficulties can be gained from an assessment of the attraction of the voluntary sector, relative to other sectors. In particular, there was a concern among smaller organisations that the voluntary sector is not an attractive option to those entering the labour market (Figure 30).

There is a widespread recognition within the sector that flexible, ethical opportunities can provide employees with a level of autonomy not available in other sectors. However, concerns over a lack of career progression, relatively poor salaries and job security present important barriers to future recruitment.

Figure 30: Perceptions of the voluntary sector's attractiveness to new entrants



Source: *Futureskills 2003*

Recruitment values
Elaine Smethurst, Executive Director, Working For A Charity

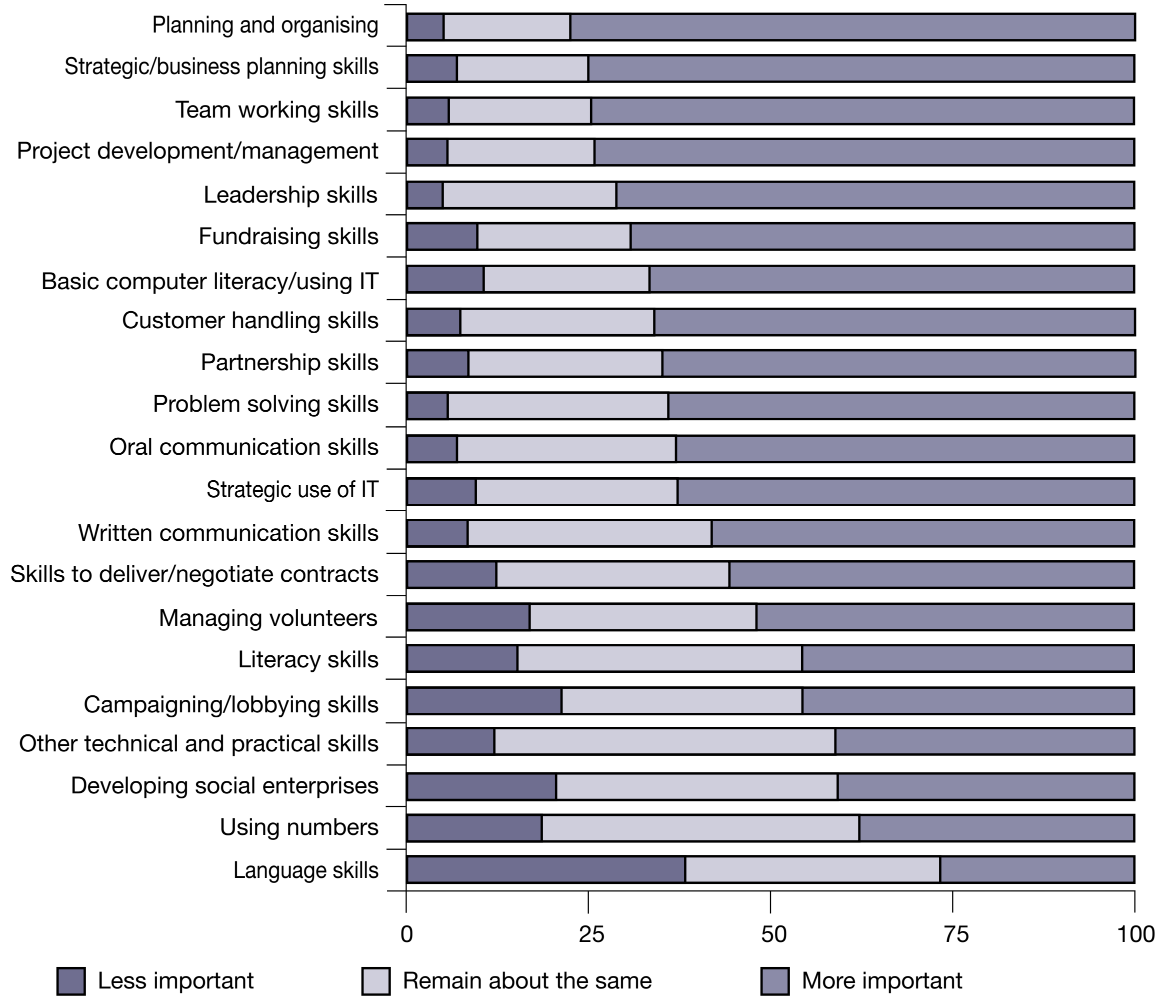
There is a paradox at the heart of voluntary sector recruitment. Those who are attracted to join the sector are often looking to work in an environment where they can make a difference and help society. Many of the 1 in 50 who choose employment in voluntary organisations have opted in – attracted by the sense of purpose, the opportunity to learn and the chance to take on levels of responsibility perhaps much greater than in their previous roles. They need a living wage and, ideally, some job security, but are not chasing high salaries or status. What differentiates a manager in the voluntary sector is not the skills set they offer (since we know that the same skills are required here as elsewhere) but the set of values and motivations.

As we attract more people from outside the sector into key jobs and work more closely with public and private partners there is a danger of absorbing their values and approaches and thus losing the unique qualities and identity which define the sector and make it effective and attractive. If the boundaries blur too much between sectors, and voluntary organisations operate increasingly like their commercial or public counterparts, what will the voluntary sector use to persuade good skilled people to give up their better paid jobs elsewhere, or to attract new entrants at the start of their careers?

In protecting the effectiveness of the sector's workforce we need not to blur the boundaries but to ensure that there are easy access points across the boundaries to encourage movement of skilled workers into and out of the voluntary sector.

Job satisfaction is key to the recruitment and retention of staff and the sector needs to establish what satisfies the individuals working in voluntary organisations. Finding that and bottling it will be the way forward.

Figure 31: Future skills needs in the voluntary sector workforce (%)



10.9.2 Future skills gaps and needs

Futureskills 2003 found that organisations believed that their staff were generally proficient within their current posts. Where staff lacked the skills or proficiency to undertake their work, the resulting skills gaps were often perceived to be the result of insufficient training and high staff turnover. An indication of future skills needs is illustrated in Figure 31. This suggests that business planning skills are a priority area for development. 79% of respondents cited planning and organising, while 74% cited strategic and business planning skills. Over half the respondents thought that two skills specific to the voluntary sector would become more important. These are fundraising (67%) and managing volunteers (51%). As the debate over service delivery continues, this may account for fewer organisations expecting campaigning and lobbying skills (i.e.

skills associated with the sector's advocacy function) to be more important. In other responses, ICT issues were frequently mentioned as critical.

Putting voluntary sector skills on the agenda
Janet Fleming, Head, Voluntary Sector National Training Organisation

Those who work and volunteer in the sector need a wide range of knowledge and skills in order to be effective in a complex and demanding environment. The context that they are working in is increasingly complex in terms of policy and funding. There are a number of factors that effectively increase the pressures on voluntary organisations. These include a competitive labour market and the impact of government policy such as the potential expansion of the role of the sector in public service delivery. In addition, there are increased demands from service users with growing expectations of a high quality service. This makes further development of knowledge, skills and values absolutely essential.

There is a range of research reports on the skills needs of the voluntary sector. The most recent national report is *Futureskills 2003*, a skills foresight research report on the voluntary sector paid workforce. In addition there are several local and regional research reports and we do need to do more systematic regional research into skills gaps and shortages. Voluntary organisations' priority skills needs for the future include management skills such as planning and organising, strategic planning, project management. Other skills in high demand are partnership skills, leadership and fundraising skills as well as a broad range of job-specific skills. 47% of organisations interviewed for *Futureskills 2003* reported recruitment difficulties in the past 12 months. Given the range and importance of identified skills gaps and shortages, the multiplicity of funding sources and the enormous diversity of the sector, a strategic approach is essential to address skills needs across the sector.

10.10 Remuneration and benefits in the voluntary sector

The sector spent an estimated £8.8 billion on staff costs in 2001/02, equivalent to 43.2% of total expenditure. It is estimated that this was a real increase of £464m (5.6%) on 2000/01. Some of this increase in employment costs was due to increased staff numbers and was not directly attributable to increases in pay or benefits.

A more accurate indication of changes in salary levels is presented in Table 50, which shows data from the 15th *Annual Voluntary Sector Salary Survey*. The survey shows changing salary levels for a panel of matched individuals from voluntary organisations across the UK. The latest data are for the year to July 2003.

Table 50: Earnings and salaries growth, 2001-2003 (%)

	2001	2002	2003
Average earnings	6.1	4.4	6.3
Average salaries	6.0	4.7	6.1
Average earnings index	4.8	3.7	3.2
Inflation (RPI)	1.6	1.5	3.1

Source: Remuneration Economics. RPI estimate, July 2001/02/03. AEI estimate, June 2001/02/03 (unadjusted)
Average earnings: basic annual salary plus bonus and location allowance where applicable.

The movement in average earnings continued to outpace inflation. Moreover, it is clear that increases in salaries and earnings in 2003 were rising more quickly than in previous years. Higher rates of increase reflected the tight labour market. The survey data also indicate that earnings increases were lowest in the smallest organisations, although there was no clear relationship between size of organisation and the rate of salary increase.

The relationship between salary and size of organisation is illustrated in Table 51. There was a clear relationship between size of organisation and average salary, particularly at more senior responsibility levels. Chief executives in the largest organisations received amounts considerably in excess of those paid to senior staff in the smallest organisations. The gap reduced considerably (and in some cases disappeared) for lower ranking positions.

Table 51: Average total annual earnings*, July 2003 (£000s)

	Under £250k	£250k-£500k	£500k-£1m	£1m-£3m	£3m-£10m	£10m-£25m	£25m-£60m	Over £60m
Chief executive	32.3	35.4	42.5	48.9	58.6	71.0	84.2	105.0
Director	29.5	29.2	31.7	33.9	39.4	47.9	57.6	72.7
Senior function head	24.8	-	25.7	30.7	34.1	36.4	39.9	52.0
Functional manager	25.2	25.9	24.7	27.4	28.1	30.0	33.0	38.9
Specialist staff	19.3	21.5	21.8	21.6	22.8	24.5	25.5	30.8
Admin/care supervisor	18.0	17.0	17.2	20.1	19.3	18.6	18.9	21.8
Admin/care officer	16.7	-	14.7	17.2	16.0	15.3	15.5	17.5
PA/secretary	16.8	13.3	16.7	18.3	16.7	19.1	17.2	16.7
Junior/trainee staff	13.3	11.9	12.5	14.7	14.7	13.6	13.3	14.7

*Total annual earnings: basic annual salary plus bonus and location allowance where applicable.
Source: Remuneration Economics.

Voluntary organisations have traditionally used local government pay scales to set remuneration levels, but evidence from the *Annual Voluntary Sector Salary Survey* indicates that the use of such scales was limited to 20.1% of respondents, usually smaller charities. Where scales were used, the NJC scale was used by over half of the respondents. Interestingly, three-quarters of respondents thought that public sector wage inflation would have an impact upon the voluntary sector.

Fringe benefits in the voluntary sector are modest compared with the private and public sectors. Interest recently has focused upon pension arrangements and, in particular, the move away from final salary pension schemes. The *Annual Voluntary Sector Salary Survey* estimates that 76.9% of respondents offered an occupational scheme, the majority of which were contributory (as this estimate is not weighted to reflect the sector as a whole, it is not indicative of how many employees are covered).

Smaller organisations were less likely to offer occupational pension schemes: half of those with an income of less than £1 million did not have a scheme available. Whilst this is arguably a cause for concern, this chapter has already highlighted that employees are more likely to work for larger organisations.

Table 52: Prevalence of occupational pension schemes in the voluntary sector, by size of organisation (% of total)

Income	No Scheme	Non-contributory	Contributory
Under £1m	50.0	16.7	33.3
£1m-£3m	18.5	29.6	51.9
£3m-£10m	7.7	15.4	76.9
Over £10m	3.1	0	96.9
All	**100.0**	**100.0**	**100.0**

Source: Remuneration Economics.

Where schemes were offered, they were predominantly money purchase (or defined contribution) schemes (Table 53). Final salary (or defined benefit) schemes were more widespread amongst larger organisations, but the risks associated with such arrangements, combined with the relatively poor performance of equity markets in recent years, mean that some of these might now be closed to new participants. In the 2003 survey, 42.9% of respondents reported that they were considering the viability of their schemes. Of those offering money purchase schemes, almost one-third of respondents (31.3%) had changed the type of scheme offered to new employees (from final salary) in the previous two years.

Table 53: Types of occupational pension scheme in the voluntary sector, by size of organisation (% of total)

Income	Money purchase	Final salary
Under £1m	95.5	4.5
£1m-£3m	95.7	4.3
£3m-£10m	86.1	13.9
£10m-£25m	63.6	36.4
Over £25m	62.5	37.5
All	**81.4**	**18.6**

Source: Remuneration Economics.

Other fringe benefits offered by the sector that are above statutory minimums are outlined in Table 54. The prevalence of such benefits follows the pattern seen in remuneration packages, with a greater proportion of larger organisations offering benefits. Additional holiday entitlement and sick pay were the most widespread type of benefit; additional maternity leave was the least widespread additional benefit.

Table 54: Organisations offering benefits in addition to statutory minimums, by size of organisation (% of total)

Income	Sick pay	Holidays	Redundancy	Maternity leave	Maternity pay
Under £1m	46.0	75.0	6.0	14.0	14.0
£1m-£3m	65.5	86.2	32.1	29.6	44.4
£3m-£10m	81.4	95.3	41.5	33.3	48.8
£10m-£25m	100.0	100.0	58.3	21.4	57.1
Over £25m	91.2	97.1	60.6	36.4	66.7

Source: Remuneration Economics.

Other fringe benefits included flexitime (50.6% of organisations), paternity leave (67.9%) and compassionate leave (78.6%). Despite the predominantly female workforce, childcare provision (8.9% of organisations) and crèche facilities (1.8%) were relatively rarely offered.

10.11 Conclusion

It is important to first conclude this discussion of paid employment in the voluntary sector by restating that a large majority of voluntary organisations are still entirely dependent upon unpaid staff. The paid workforce is still heavily concentrated in larger, better-resourced voluntary organisations.

Despite the difficulties and costs associated with recruiting staff – particularly those with the prerequisite skills – it is clear that the workforce continues to increase in size. Although the two methods of estimating the total size of the workforce used in this chapter produce different figures, the increase in total voluntary sector employment is the continuation of an upward trend seen since the mid-1990s.

Looking ahead, it is unclear whether this trend will continue. A number of general charities in our main survey have seen decreases in staff numbers. Redundancies in a small number of high-profile national charities have already taken place, although these may turn out to be isolated cases.

An increasing workforce will present challenges for the sector, including human resource management and skills development. An understanding of diversity issues needs to be more widely embedded in HR management practices. A rising wage bill will also need to be explained to the sector's stakeholders. A more informed understanding of the workforce and its characteristics, based on consistent and comparable labour market information, remains a key goal for the sector in this area.

10.12 Resources and further reading

Almond, S. and Kendall, J. (2002) *Trends in third sector employment, 1995-2000*. Centre for Civil Society Working Paper 22. London: Centre for Civil Society, London School of Economics and Political Science.

Cunningham, I. (2000) 'Prospects for union growth in the UK voluntary sector: the impact of the Employment Relations Act 1999'. *Industrial Relations Journal*, 31/3, September 2000, 192-205.

DSC (2002) *UK voluntary sector training courses review.* www.dsc.org.uk/charitytraining/trainingreport.pdf

ESRC Future of Work website: www.leeds.ac.uk/esrcfutureofwork/

Hillage, J. *et al* (2002). *Employers Skill Survey 2002.* www.dfes.gov.uk/research/data/uploadfiles/RR372.pdf

Remuneration Economics (2002) *15th Annual voluntary salary survey*. www.celre.co.uk/Charity/index.asp

Turton, D. (2003) *Skills gaps, training and workforce development in the voluntary sector: the rural analysis*. www.ncvo-vol.org.uk

Voluntary Sector National Training Organisation (2000) *Skills matter*. www.voluntarysectorskills.org.uk/

Voluntary Sector National Training Organisation (2001). *Workforce development plan*. www.voluntarysectorskills.org.uk/

Wilding, K., Collis, B., Lacey, M. and McCullough, G. (2003) *FutureSkills 2003*. London: NCVO. www.voluntarysectorskills.org.uk/

11. Volunteers and trustees

Highlights

- 27% of the population formally volunteer for clubs, societies and organisations at least once a month.
- General charities benefit from approximately 750,000 trustees.

11.1 Introduction

Chapter 10 has highlighted the increasing size of the voluntary sector's paid workforce, but it has equally demonstrated the continued dependence of voluntary organisations on the unpaid work of volunteers. All voluntary organisations depend upon the unpaid work of trustees.

11.2 Sources of data

This chapter briefly explores the size and characteristics of the unpaid workforce. Information on the number of volunteer workers for general charities is now outdated. The most recent estimate for 1998 estimated that general charities had three million unpaid workers.

A much more comprehensive and recent survey, the 2001 Home Office Citizenship Survey (HOCS), addressed the issue of active citizenship. Based upon a core survey of over 10,000 people, the HOCS provides a detailed review of trends and attitudes to citizenship in England and Wales. This includes an assessment of formal volunteering, a summary of which is included in this chapter. We are grateful to the authors at the Home Office Research Development and Statistics Directorate for their permission to reproduce findings from the HOCS.

Estimates of the number of trustees have been reproduced from a survey of governance trends undertaken for NCVO in 2001 (Cornforth, 2001). These are the latest available data.

11.3 Active participation in communities[10]

The 2001 Home Office Citizenship Survey defines people's active participation in their communities using a number of different measures. In doing so, it recognises the definitional problems often associated with volunteering. The five measures of active citizenship used in the HOCS are:

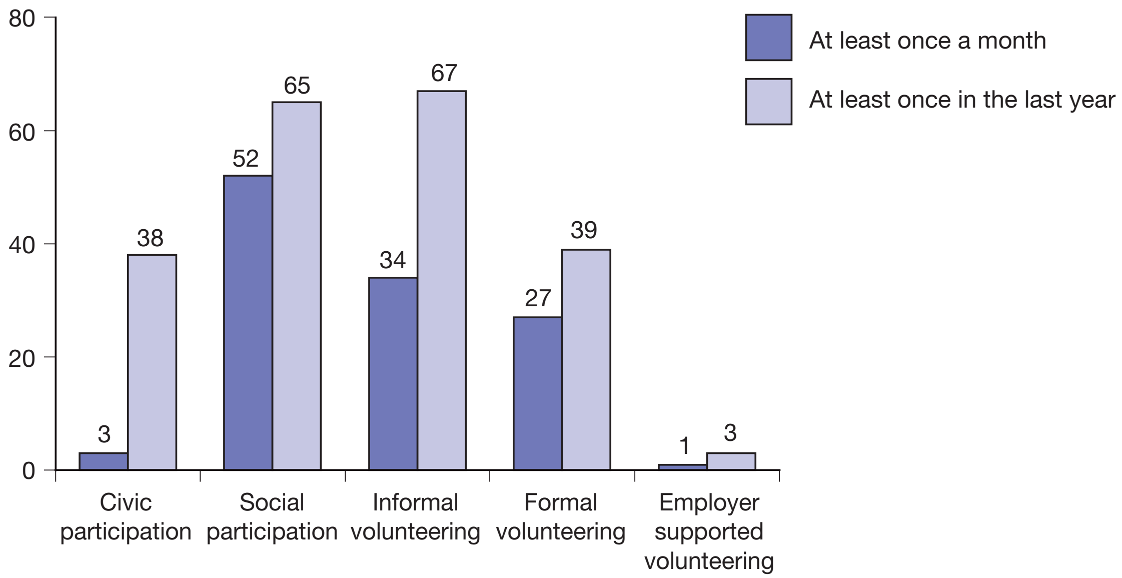
- civic participation: engagement in a range of activities such as signing a petition or attending a meeting;
- social participation: being involved in groups, clubs or associations;
- informal volunteering: giving unpaid help as an individual to others;

[10] Findings from the Home Office Citizenship Survey are Crown Copyright. They have been reproduced from Prime, D. *et al* (2003) 'Active participation in communities', in Attwood, C. *et al* (2003) *2001 Home Office Citizenship Survey: people, families and communities*. Research Study 270.

- formal volunteering: giving unpaid help to other people or the environment, through a group, club or organisation; and
- employer-supported volunteering: volunteering through schemes set up by employers.

The relative importance of each type of participation is illustrated in Figure 32. People were asked about two types of participation level: at least once in the last 12 months, and at least once a month in the last year. Different types of participation (and the level of commitment associated with them) showed different levels of participation.

Figure 32: Participation in voluntary and community activities, by type of activity



Source: 2001 Home Office Citizenship Survey (Prime *et al*, 2003)

Over two-thirds of respondents had informally volunteered in the last 12 months, although a much lower proportion (34%) displayed a regular monthly commitment to informal volunteering. Social participation in groups, clubs or organisations showed the largest commitment to regular, monthly participation. 52% of respondents are assumed to participate on a monthly basis in their communities in this way.

11.4 Active participation in communities: formal volunteering

The HOCS does not provide any evidence of how many people volunteer for general charities. The category that might most closely approximate to the number of volunteers giving time to voluntary organisations is formal volunteering: giving unpaid help through groups, clubs or organisations.

The HOCS estimates that 39% of the population volunteered formally at least once in the last 12 months. A smaller proportion (27%) had volunteered formally at least once a month. The HOCS is based on a survey of England and Wales, and if these proportions are applied to the population, estimates of 16.2 million (once a year) and 11.1 million (once a month) formal volunteers are produced. If the survey results were equally valid for the UK as a whole, these estimates would increase to 22.9 million (once a year) and 15.9 million (once a month) formal volunteers.

Formal volunteers engage in a wide range of activities. The most popular are raising or handling money (56% of formal volunteers) and organising or helping to run an activity or event (54%). There are a number of noticeable variations in the type of activity according to gender and ethnicity. Men are more likely to serve as committee members than women, whilst black and Asian people are more like to engage in a visiting or befriending activity.

Table 55: Participation in formal volunteering at least once in the last 12 months, by activity and by age, gender and ethnic group of respondents

Field of interest	Men	Women	White	Asian	Black	All
Raising or handling money	52	59	56	52	40	**56**
Organising or helping to run an activity or event	54	54	55	44	47	**54**
Giving other practical help (direct services)	31	39	35	32	33	**35**
Leading a group/being a member of a committee	36	33	35	23	28	**34**
Giving advice/information/ counselling	31	27	28	31	41	**29**
Providing transport/driving	30	22	27	19	16	**26**
Visiting/befriending people	18	26	21	31	36	**22**
Secretarial, admin or clerical work	17	19	18	12	14	**18**
Representing	19	13	16	15	16	**16**
Campaigning	13	12	13	11	10	**12**
Any other help	7	7	7	8	11	**7**

Source: 2001 Home Office Citizenship Survey (Prime *et al*, 2003)

The HOCS estimates that formal volunteers gave, on average, the equivalent of 105.8 hours each. This is the equivalent of approximately three working weeks. If the average hours worked are applied to the 16.2 million volunteering at least once a year, it is estimated that 942,000 full-time workers would be needed to replace them at a cost of £17.9 billion.

These figures apply only to England and Wales: if the same method is applied to the UK population, an estimate of 1,333,000 full-time workers would be needed, almost three times the number of full-time equivalent paid employees in the voluntary sector. This would be at a cost of £25.3 billion. However, it should be noted that these estimates take no account of the costs of volunteer development or management.

11.5 Trustees

A special category of unpaid worker is the organisation trustee or management committee member. The HOCS estimates that 34% of formal volunteers lead a group or are a member of a committee.

Some data on the number of trustees in general charities are available (Cornforth, 2001). These organisations had an average of eight trustees and an estimated 1.2 million trusteeships. However, as an estimated 40% of trustees fulfil that role for more than one organisation, it is likely that the total number of trustees is around 750,000 (NCVO, 1995).

Trustees as a resource
Tesse Akpeki, Head of Trustee and Governance Team, NCVO

In the 21st century the challenges of governance and leadership have never been greater. Voluntary organisations need trustees who will add value to the organisation. Trustees should provide focused and clear strategic thinking. With the Chief Executive, they should formulate a realistic and achievable strategic plan that balances proactivity with reactivity. The resourceful board of trustees will:

- appoint the right Chief Executive for the organisation;
- provide appropriate support for the Chief Executive;
- serve as a sounding board;
- encourage and reward experimentation; and
- model effective leadership.

Through the oversight role of the board, a wider perspective is introduced by bringing to the fore the bigger picture that is increasingly crucial to the success of the organisation. In terms of accountability, the board enhances public trust and confidence. At the same time, utilising skills, talents and the wealth of experience from all walks of life enhances the credibility of the organisation. Citizenship is at the heart of modern day Britain and a board embodying this is exemplary to modern society. In a risk adverse society, trustee boards stick with the old as well as the new to make life better for the present and the future.

Through strategic networking boards link the organisation to local communities, business networks and less accessible contacts. It is easy to forget the amount of time and commitment that trustees literally bring to the table, often for no financial reward. Trustees give their time for ongoing training and development at weekends and evenings. By pooling their skills, expertise and experience trustees remain an invaluable source of social capital to British society.

Given the roles and responsibilities that make trustees such an important resource, voluntary organisations face a number of key challenges:

- how can voluntary organisations recruit the right people, with the right skills to voluntary positions that require such levels of strategic planning and thinking?
- how can the effectiveness of governing boards be enhanced?
- how will voluntary boards provide leadership as the competence of chief executives increases?
- how, given the overhaul of charity law and regulation, can boards keep pace and continue to add value to the organisations they govern?

Trustees are inevitably concentrated in smaller general charities, as all organisations require a number of trustees in order to function. Although board size increases with size of organisation, 85% of trustees are connected with organisations whose annual income is £100,000 or less. Research for NCVO (Cornforth, 2001) indicates that:

- 55% of trustees are men, though this proportion increases among larger organisations;
- 71% of trustees are aged 45 or over; and
- 4.8% of trustees are from a black or minority ethnic community.

11.6 Conclusion

Volunteers and trustees are an important resource for many organisations, whether as direct deliverers of services, fundraisers or trustees. Voluntary organisations of course benefit from the unpaid time given to them, but at the same time they are bases for voluntary action and active citizens.

Any notion of the value of volunteers and trustees cannot be limited to the financial value of their labour. Any discussion of volunteer value needs to encompass the increasingly used concept of social capital, and the way in which voluntary organisations both build and benefit from social capital. Such debates also fail to recognise the contribution of trustees and volunteers to the important issues of the day, particularly accountability.

11.7 Resources and further reading

Cornforth, C. (2001) *Recent trends in charity governance and trusteeship*. London: NCVO. www.ncvo-vol.org.uk/

Davis Smith, J. (1998) *The 1997 National Survey of Volunteering*. London: Institute for Volunteering Research. www.ivr.org.uk/

Gaskin, K. (1997) *VIVA – The Volunteer Investment and Value Audit.* Briefing paper prepared by the Joseph Rowntree Foundation, York.

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The Institute for Volunteering Research. www.ivr.org.uk/

Jochum, V. (2003) *Social capital: beyond the theory.* London: NCVO. www.ncvo-vol.org.uk/

Office for National Statistics – the Household Satellite Account site includes values of formal voluntary activity for 2000. www.statistics.gov.uk/hhsa/hhsa/section237.html

12. Expenditure

Highlights

- General charities' current expenditure (staff costs, depreciation and the purchase of goods and services) was £20.4 billion in 2001/02.
- In addition, a further £1.7 billion of capital expenditure was spent to acquire or upgrade physical assets in 2001/02.
- Current expenditure increased between 2000/01 and 2001/02 by £105 million, or 0.5%. However, general charities cut their capital expenditure by £476 million (22%) over the same period.
- 89.3% of current expenditure was spent on charitable expenditure (the main activity heading in the charities' SORP). The remaining 10.7% was spent on activities to generate funds.
- Staff costs are incurred across both of these activities. The cost of staff to the sector was £8.8 billion in 2001/02.

12.1 Introduction

This chapter looks at the voluntary sector's total expenditure. This comprises *current expenditure* (all the outgoings of a charity in the financial year, excluding purchases of fixed assets and investments) and *capital expenditure* (resources invested to acquire or upgrade physical assets that usually have a lifespan longer than 12 months).

The data on expenditure are for the financial years 2000/01 and 2001/02, the latest available. All figures have been adjusted for inflation and are expressed in 2001/02 prices, so as to show real change. As in the case of income, no one trend applies to the sector as a whole. Therefore, much of our analysis again splits the sector into groups according to their total income.

A discussion of current expenditure is the main focus of this chapter. The Almanac has highlighted the volatility of general charities' income levels, but current expenditure levels are generally more stable. Current expenditure is therefore a better guide to changing levels of activity in the sector. This includes change over time, and the chapter starts with a review of changes in total current expenditure since 1990/91.

The chapter then turns to a discussion of how the sector spends its resources. The analysis of current expenditure in this Almanac uses categories developed for the revised charities' SORP (Statement of Recommended Practice). In addition to the main analysis, a review of staff costs complements the information on staff numbers presented in Chapter 10. The SORP categories are unique to the voluntary sector, and therefore the following section briefly explains their use.

The discussion of current expenditure is followed by an analysis of the sector's capital expenditure. Information on capital expenditure remains limited, but a brief analysis is worthwhile given the current policy focus on modernisation and the role of capital funds.

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

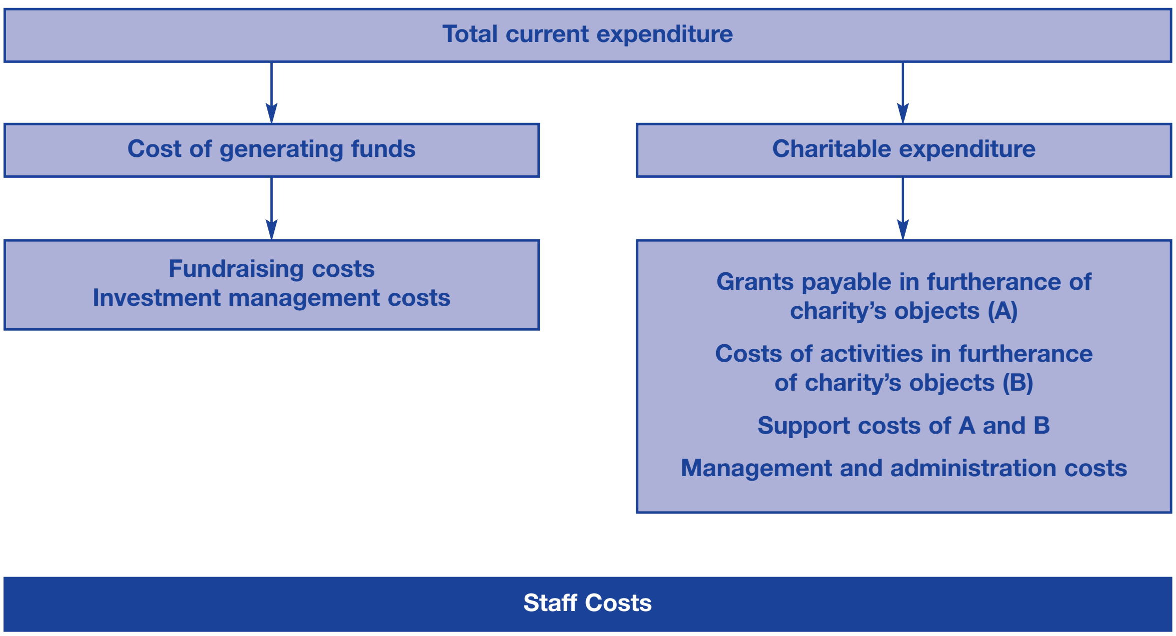
12.2 Charities' expenditure: issues of definition and classification

Increasing levels of public interest and scrutiny in the voluntary sector's expenditure have led to the development and revision of the accounting rules in relation to expenditure. The latest revision, *SORP 2000*, has amended the categories used to analyse expenditure in charities' accounts, the source of data used in this chapter.

The introduction has already distinguished between current and capital expenditure. Unlike incoming resources, it is still possible to compare total current expenditure over time, despite changes in accounting rules.[11] However, the introduction of new expenditure headings in *SORP 2000* means that it is not possible to compare *types* of expenditure with previous benchmarks. Comparison with the expenditure headings used in previous Almanacs is not possible.

Current expenditure is accounted for in charity accounts using a 'functional analysis', so that outgoing resources are allocated according to different types of activity. The headings used in this functional analysis are illustrated in Figure 33.

Figure 33: *SORP 2000* expenditure headings



[11] Although the 1994/95 ONS benchmark survey collected some information on capital expenditure, this is very limited in scope and has not been used for comparison.

The SORP splits current expenditure into two main categories: costs of generating funds and charitable expenditure. The 'costs of generating funds' category covers the costs associated with generating all types of income, and not just voluntary income. For example, the category includes investment management costs and trading subsidiary costs.

The second category, 'charitable expenditure', comprises the costs incurred by the charity in meeting its charitable objectives. This includes the cost of any grants made, the direct cost of any charitable activities undertaken by the organisation, and the cost of supporting these charitable objectives.[12] This category also includes management and administration costs.

These categories are 'functional'. This means that they represent different functions or purposes within the organisation, and all the costs associated with each function are included in that category. Thus we would find an element of staff costs, expenditure on goods and services and so on, within each of the categories. (Staff costs are discussed in section 12.7.)

Finally, it is worth noting that any analysis of current expenditure is not without problems. Despite clear guidance in the charities' SORP, it remains the case that the allocation of expenditure to the different functional categories varies between organisations, in some cases significantly. Different accounting rules for small organisations (those with incomes less than £100,000) mean that the distinction between current and capital expenditure is less clear. Moreover, the continuing use of 'natural classification' by small charities requires a greater level of interpretation at the data extraction stage.[13] An awareness of these issues has informed the analysis in the remainder of this chapter.

12.3 Total current expenditure

The sector's total current expenditure in 2001/02 was £20.4 billion (Table 56). This is a small increase of 0.5% on 2000/01, when expenditure was £20.3 billion. Although small, this increase in expenditure on operating activities is in direct contrast to the sector-wide 2% fall in income experienced over the same period (Chapter 6). Over the longer term, the 2001/02 estimates represent an increase of £7.5 billion in real terms since 1994/95. This represents a substantial expansion of the resources expended by the sector since 1994/95.

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[12] Support costs have not been separately reported in the Almanac. They have been combined with expenditure in furtherance of charitable objectives.

[13] A natural classification of expenditure uses headings such as salaries, rent, rates, light and heat. This is in contrast with the headings used in the SORP. The SORP expenditure headings allocate a proportion of costs to the different functions (costs of generating funds etc.).

Table 56: Total current expenditure by size of organisation, 2000/01 and 2001/02

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01	410.0	1,633.4	4,866.2	5,592.9	7,788.1	**20,290.6**
2001/02	405.1	1,597.6	4,806.3	5,651.8	7,934.6	**20,395.4**
Total change (%)	-1.2	-2.2	-1.2	1.1	1.9	**0.5**
Total change (£million)	-4.9	-35.9	-59.9	58.9	146.5	**104.7**

Source: NCVO

The largest general charities (those with incomes of £10 million and over) saw expenditure increase more quickly than income. General charities with incomes less than £1 million saw their expenditure fall; however, their fall in expenditure was not as great as their fall in income.

For both groups the difference was funded from a mixture of reserves and/or the increasing use of loan finance. Falling reserve levels corroborate this explanation. Dipping into reserves in this way is clearly not a viable option in the long term, but in the short term it allows organisations to maintain expenditure levels in a volatile income environment.

Table 57 shows the relationship between total income and total current expenditure. Expenditure is expressed as a proportion of income. In 2001/02 organisations spent, on average, 98.1% of their income on operating activities. This does not take into account any purchases of fixed assets (capital expenditure). As total income includes grants or resources received to enable the purchase of fixed assets, it is unsurprising that total income exceeds total current expenditure.

Evidence suggests that the smallest general charities – those with incomes less than £100,000 – spent more than their total income. This is in direct contrast with larger organisations, where total income and total current expenditure were more closely matched. Some caution is required here though: the disparity in accounting procedures highlighted in section 12.2 may contribute to these differences. Although the situation for small organisations is obviously unsustainable, relatively higher reserve levels may enable these organisations to manage a short-term mismatch in resources (Chapter 13).

12.4 The distribution of current expenditure

As with income, in 2001/02 the greatest proportion of the sector's current expenditure was accounted for by the largest organisations (Figure 34). General charities with an annual income of over £10 million spent 38.9% of the sector's outgoing resources. Six in ten general charities had an income of less than £100,000, but this group accounted for only 2% of the sector's total current expenditure.

Table 57: Total current expenditure as a proportion of total income (%)

	Under £100k	£100k-£1m	£1m-£10m	Over £10m	All
1991	93.8	89.5	94.3	96.1	**93.6**
1994/95	89.8	89.5	90.8	97.8	**92.4**
2001/02	109.1	97.8	94.0	99.0	**98.1**

Source: NCVO

Figure 34: Percentage of organisations and share of total current expenditure by size of organisation (%)

Source: NCVO

Since 1990/91 (the first available benchmark), the largest charities in particular have generated an increasing level of expenditure. General charities with incomes over £10 million have seen their collective expenditure increase by £5 billion (Figure 35). This reflects an increase in the average expenditure of this group, and an increasing number of organisations of this size. Smaller organisations have been less able to increase expenditure levels.

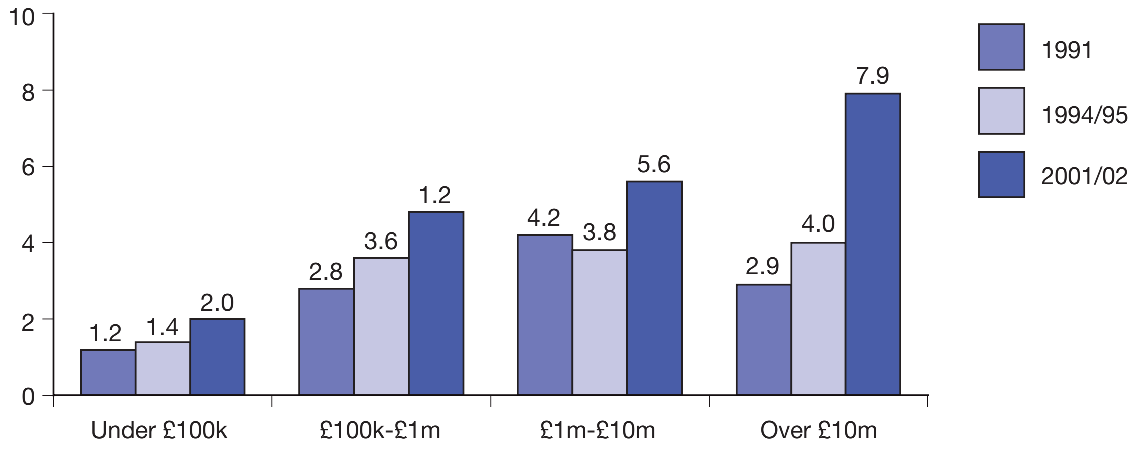
12.5 Categories of current expenditure

Section 12.2 presented the expenditure headings used in the charities' SORP upon which this analysis is based. The main functions to which expenditure was allocated for 2001/02 are illustrated in Figure 36. Using the two main expenditure headings, analysis shows that:

- costs of generating funds accounted for 10.7% of total expenditure in 2001/02, equivalent to £2.2 billion; and
- charitable expenditure accounted for 89.3% of expenditure, or £18.2 billion.

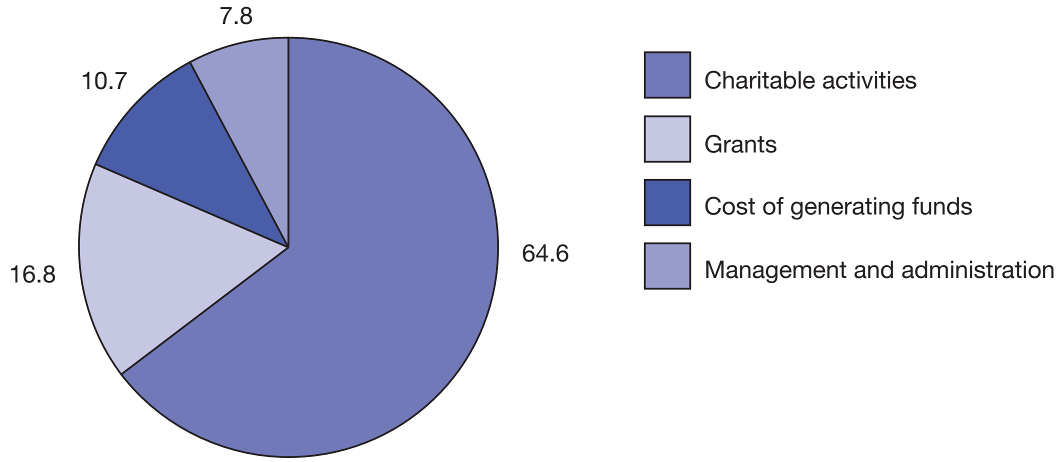
The proportion of current expenditure accounted for by each component remained stable between 2000/01 and 2001/02.

Figure 35: Total current expenditure by size of organisation, 2001/02 (£billion)



Source: NCVO; ONS

Figure 36: Categories of total current expenditure, 2001/02 (%)



Source: Table 64

12.5.1 Costs of generating funds

The cost of generating funds accounted for 10.7% of total current expenditure in 2001/02 (Table 64). The estimate of £2.2 billion represents a small increase of £56 million on 2000/01; however, it was only general charities with incomes of over £1 million that increased expenditure under this heading.

The total cost of generating funds can be divided into fundraising and publicity costs, and trading subsidiary costs. Fundraising and publicity accounted for £1.3 billion, or 60% of activities to generate funds. Trading subsidiary costs accounted for the remaining £870 million of expenditure, most of which was attributed to the largest organisations that have established trading subsidiaries.

12.5.2 Charitable expenditure

As would be expected, charitable expenditure accounted for £18.2 billion, or almost all the sector's current expenditure. The sector managed a small increase in charitable expenditure of £44 million in comparison to 2000/01. More usefully, charitable expenditure can be further broken down into the amounts spent upon:

- activities in furtherance of charitable objects;
- expenditure on grants; and
- management and administration.

Support costs have been included with expenditure on charitable activities and grants, where appropriate. These expenditure headings are discussed in more detail below.

Activities in furtherance of charitable objects

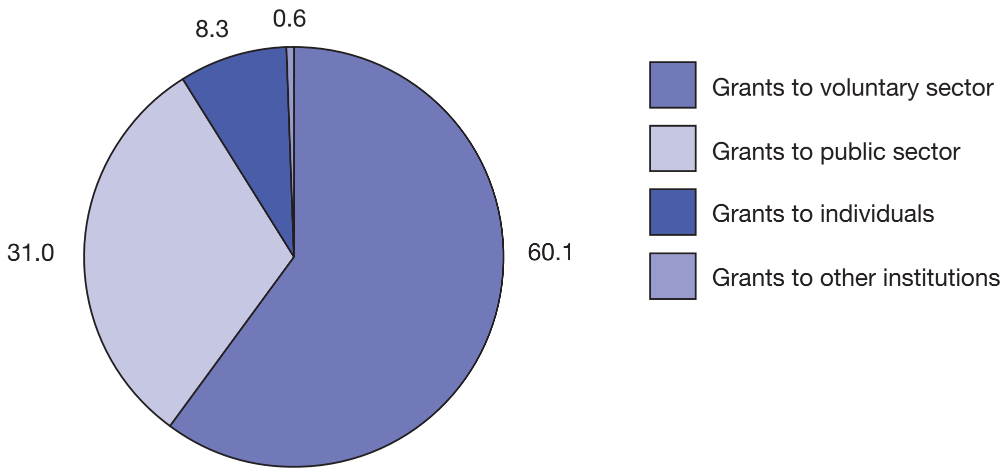
In 2001/02 the cost of undertaking activities in furtherance of charitable objects (for example, the delivery of services) was the main type of charitable expenditure. The sector spent £13.2 billion on charitable activities in 2001/02, an increase of £244 million on 2000/01. However, not all organisations increased their expenditure in this area.

Grants to other organisations and individuals

Grant-making to both individuals and other organisations is an important feature of the voluntary sector. In order to achieve their charitable aims general charities spent £3.4 billion on grants to individuals or other organisations. This represented 16.8% of the sector's total current expenditure. However, this was £255 million less than in 2000/01. In turn, this had an impact on the amounts received by general charities as grants from other voluntary organisations (Chapter 6).

The recipients of these grants are shown in Figure 37. In 2001/02 the greatest proportion of grant expenditure went to other voluntary organisations (£2.1 billion). This highlights the linkages within the sector, and the importance of charitable foundations to the sustainability of the sector as a whole. However, the amount spent on grants to other voluntary organisations was significantly more than the £1.1 billion grant income *received* by general charities as income from other voluntary organisations (see Chapter 6). The explanation for this apparent anomaly is one of definitions: general charities gave grants to a broad range of voluntary organisations, some of which are excluded from the definition of the sector used in the Almanac. These may include exempt or excepted charities or voluntary organisations based overseas.

Figure 37: Share of total grants by recipient, 2001/02 (%)



Source: Table 61

A significant proportion of grant expenditure went to public sector organisations (31.2% or £1069.8 million). Recipients included higher education institutions (such as universities undertaking medical research), schools and hospitals. Many small organisations, such as Parent Teacher Associations, provided grants to statutory institutions.

Much of the remaining expenditure on grants directly benefited individuals. Grants to individuals were worth £276 million in 2001/02, £24 million more than in 2000/01. Finally, expenditure of £19 million was made on grants to other institutions in 2001/02. These recipients included private sector organisations.

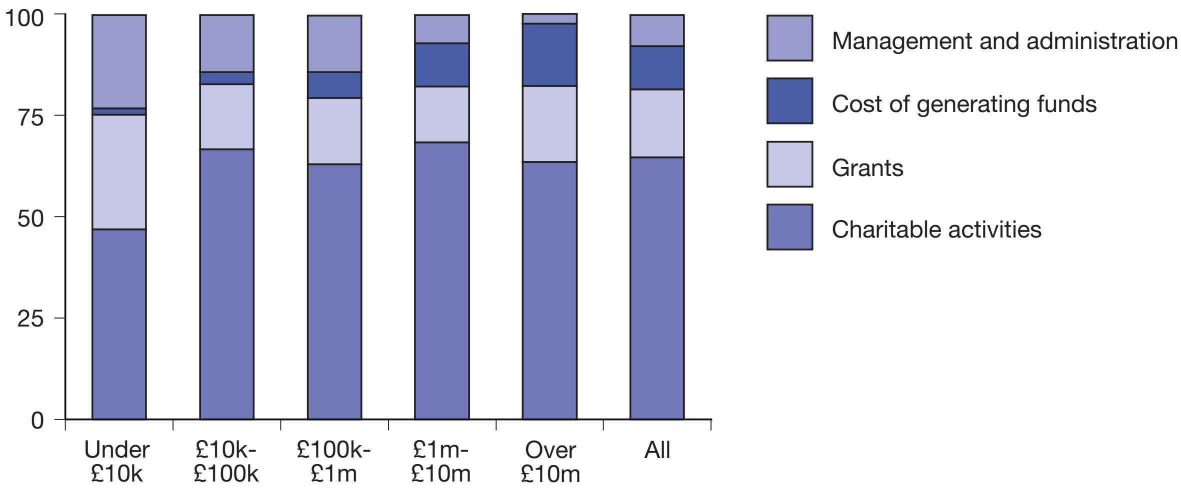
Management and administration

The final type of charitable expenditure is management and administration costs. Management and administration cost the sector £1.6 billion in 2001/02 (7.9% of the sector's total current expenditure). This figure increased by £59 million from 2000/01. Expenditure on management and administration varies significantly between different sizes of organisation, and this is discussed in the following section.

12.6 Categories of current expenditure by size of organisation

The breakdown of current expenditure differed according to size of organisation (Figure 38). Activities to generate funds accounted for 10.7% of the sector's expenditure, but this proportion increased with size of organisation. Organisations with incomes of under £10,000 spent 1.5% of expenditure on generating funds in contrast with those of incomes over £10 million, who spent 15.3% of current expenditure under this heading.

Figure 38: Categories of total current expenditure by size of organisation, 2001/02 (%)



Source: Table 64

In the case of larger organisations, a greater proportion of expenditure on income generation reflects a more professional approach to fundraising, investment and trading. Larger organisations are more likely to use investment fund managers or employ paid fundraisers or agencies, although the evidence from Chapter 6 suggests that this enabled the largest organisations to sustain voluntary income. The largest organisations are also more likely to run trading subsidiaries, the costs of which are included in activities to generate funds. Trading subsidiaries are discussed in Chapter 6.

In direct contrast to activities to generate funds, charitable expenditure increases as a proportion of the total for smaller organisations. However, smaller organisations spent a larger proportion of current expenditure on management and administration. The smallest general charities (incomes under £10,000) spent 23.3% of their resources on management and administration in 2001/02, a proportion that fell to 2.5% for those with incomes above £10 million. This may reflect the economies of scale achieved by larger organisations, but it is more likely that different accounting practices have contributed to this trend.

The combined result of these two trends is that expenditure on activities that do not *directly* deliver charitable aims is relatively stable across the sector. The smallest organisations spent a combined 24.8% on activities to generate funds and management and administration. The largest general charities spent 17.7% of their expenditure on these two categories.

The two remaining types of charitable expenditure directly contribute to the achievement of charitable aims. The direct undertaking of charitable activities is the largest single expenditure category, accounting for almost two-thirds of the sector's current expenditure. Organisations with incomes between £1 million and £10 million spent the largest proportion of their resources directly on activities, which suggests that service delivery organisations are concentrated in this group. Much of this was likely to be consumed by staff costs (section 12.7). Expenditure on undertaking charitable activities was lowest in small organisations, which partly reflected a much larger proportion of expenditure on grant-making.

Grant-making enables many organisations to achieve their charitable aims without directly providing a service or undertaking a project. Grants represented a high proportion (28.3%) of total expenditure for the smallest organisations, although the total expenditure on grants of this group was relatively modest (£115 million). This was perhaps a result of a significant number of small, endowed trusts in the lowest income band. General charities with incomes over £10 million spent £1.5 billion on grants to other organisations and individuals.

In conclusion, it is worth noting that collectively, expenditure on grants and undertaking charitable activities accounted for between 75% and 80% of organisations' total current expenditure.

12.7 Staff costs

This chapter has so far used *functional* categories of current expenditure to illustrate how outgoing resources are spent on different activities. However, this analysis does not identify staff costs, a significant category of expenditure. Expenditure on staff costs is incurred across all the sector's activities; as a result, these costs are embedded within the expenditure headings already discussed in this chapter. It is therefore worthwhile to present a separate, cross-cutting analysis of staff costs.

Expenditure on employing paid staff in the voluntary sector totalled £8.8 billion in 2001/02, or 43.2% of total current expenditure. This figure represents a real increase of 5.6% on 2000/01. In 1994/95 the sector spent 35% of total expenditure on staff costs.

Table 58: Total staff costs by size of organisation, 2000/01 and 2001/02

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01 (£million)	90.2	564.8	2,209.0	2,593.7	2,887.6	**8,345.3**
2001/02 (£million)	70.3	588.7	2,292.4	2,783.9	3,073.6	**8,808.8**
Total change (%)	-22.1	4.2	3.8	7.3	6.4	**5.6**
Total change (£)	-19.9	23.9	83.4	190.2	186.0	**463.5**

Source: NCVO

This estimate includes 'on-costs' (pensions and national insurance contributions), and therefore the rate of increase is not equivalent to an increase in salary levels (see box below). Rising employment costs also reflect the increasing size of the workforce: general charities are employing more staff, which is in turn increasing employment costs.

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The salary gap
Jennie Saunders, Research Manager, Remuneration Economics

The voluntary sector is experiencing a well-publicised skills shortage, which is impacting on salaries and pay awards. We consistently find organisations reporting that skills shortages coupled with salary levels are the primary causes of recruitment difficulties. As organisations react to the skills shortage, retaining skilled employees becomes crucial and we see significant individual pay awards driven by the need to reward experienced, specialist staff by paying the market rate for their skills.

Our survey of voluntary sector pay and benefits showed a general annual pay award of 3.1%, roughly in line with both RPI and the Average Earnings Index for the 12 months to July 2003. However, when we looked at a constant sample of individuals employed across this period we found that their actual salaries had increased by 6.1% on average. Some key staff received increases substantially above the general rate of increase, driving the overall figure up to 6.1%.

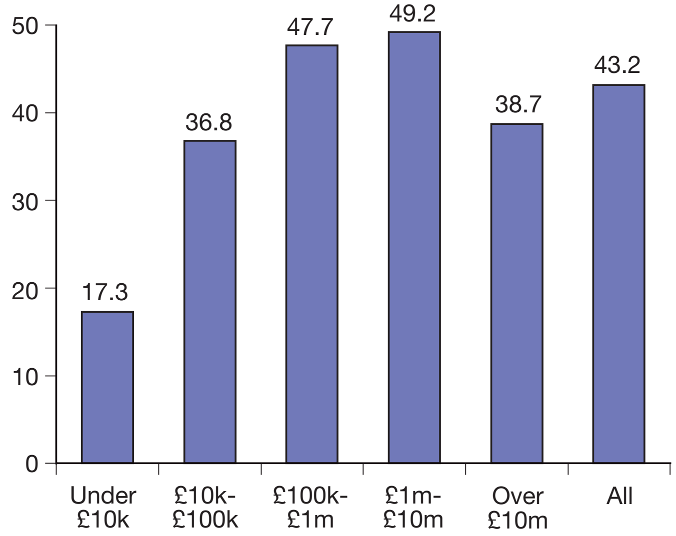
Over the past three years, certain functions within the voluntary sector consistently receive higher average salaries than others. Functions earning above the average rate for 2003 include finance (+8.3%), HR/personnel (+13%) and IT (+6%). Where direct competition with the commercial sector exists, functions are commanding more competitive salaries. Our research (based on direct comparisons with our commercial sector surveys) confirms that it is in these very functions that the gap between commercial and voluntary sector remuneration is at its narrowest. For example, specialist HR staff earn on average 98.8% that of their commercial counterparts.

Voluntary sector salaries are unlikely to achieve parity with the commercial sector. However, they increasingly have to become more competitive with the commercial sector. Voluntary organisations will need to pay competitive salaries and market supplements to attract and retain high calibre, professional staff – particularly in specific functions where there is direct competition for staff.

Expenditure on staff costs varied with size of organisation (Figure 39). It is no surprise that the smallest organisations spent a proportionally small amount on staff costs. General charities with incomes below £10,000 clearly have limited opportunities to employ paid staff. Many of these small organisations rely almost entirely upon on volunteers; any paid staff are likely to work relatively few hours.

Larger organisations rely much more on paid employees, and their staff costs reflect this. General charities with incomes between £1 million and £10 million spent almost half of their total current expenditure (49.2%) on staff costs. This proportion is likely to reflect the large number of organisations in this group delivering services such as social care activities.

Figure 39: Staff costs as a proportion of total current expenditure, 2001/02 (%)



Source: NCVO

General charities with incomes above £10,000 increased the proportion of expenditure on staff costs between 2000/01 and 2001/02 (Table 59). However, organisations with incomes below £10,000 actually reduced their expenditure on staff (and the number of staff employed) over the same period. As the Almanac has already highlighted, this may reflect the difficult financial environment faced by the smallest organisations.

Table 59: Staff costs as a proportion of total expenditure (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01	22.0	34.6	45.4	46.4	37.1	**41.1**
2001/02	17.3	36.8	47.7	49.3	38.7	**43.2**

Source: NCVO

12.8 Capital expenditure

The main focus of this chapter has been on current expenditure, or resources expended on day-to-day operations. However, it is also worth examining expenditure to acquire or upgrade fixed assets. These fixed assets include land, buildings, vehicles and equipment. Therefore, it could be argued that expenditure on capital items contributes to the long-term sustainability of the sector. This category does not include expenditure on the purchase of investments.

Total capital expenditure is illustrated in Table 60. General charities spent a total of £1.7 billion on purchasing or upgrading physical assets in 2001/02, a sum equivalent to 8.3% of current expenditure.

Capital expenditure is more volatile than current expenditure – building projects or other large purchases tend to be one-off events – and therefore Table 60 illustrates large differences between capital expenditure in 2000/01 and 2001/02. The smallest organisations increased their capital expenditure, but these increases were relatively small in cash terms. Overall, capital expenditure fell by 22%. Changes of this magnitude might be normal, whilst 2000/01 might have seen higher levels of investment as social care charities upgraded buildings and equipment in response to regulatory changes.

Table 60: Total capital expenditure by size of organisation, 2000/01 and 2001/02

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01	0.9	18.0	684.7	902.6	561.4	**2,167.5**
2001/02	2.6	59.3	512.1	595.5	522.0	**1,691.5**
Total change (%)	180.5	229.4	-25.2	-34.0	-7.0	**-22.0**
Total change (£million)	1.7	41.3	-172.6	-307.1	-39.4	**-476.1**

Source: NCVO

An alternative explanation is that general charities had sought to reduce their expenditure on fixed assets in order to enable continued levels of current expenditure. Although this is obviously not the case where grants were received to purchase new fixed assets, it was clearly an option where proposed investments were to be funded from reserves. Finally, it is worth noting again that data over a longer time period are needed to understand changes in capital expenditure.

12.9 Conclusion

The voluntary sector's commitment to continuing programmes is evident from the sustained levels of current expenditure between 2000/01 and 2001/02, despite a corresponding fall in income over the same period. However, closer examination of trends within the sector again highlights issues for concern.

For all but the largest organisations, current expenditure levels have been dragged down by falling income levels. The prudent holding and use of reserves have enabled small and mid-sized organisations to minimise any reductions in current expenditure. Only the largest organisations – incidentally, those that spent the largest amounts on fundraising and publicity – have been able to increase income, and in turn increase expenditure. This expansion in both income and expenditure is clearly related to contracts for the delivery of statutory public services. This has in turn contributed to a longer-term trend of increasing the concentration of resources into a small number of large, national organisations.

The overall increase in expenditure reflects the sector's expansion of services: the sector spent £16.6 billion on grants or activities to directly meet its charitable aims. But cost pressures are also evident, in particular rising salaries and employment costs. These are unlikely to go away, whilst other cost pressures (such as insurance costs) are also evident. These pressures are likely to drive moves towards full-cost recovery in the sector.

A greater awareness of (and pressure for) full-cost recovery is one of a number of strategies for sustainability. Other options may include greater levels of investment in fundraising (although long-term benefits are often at short-term cost) and increasing charities' use of loan finance. A more worrying response may be a continuation of the overall reduction in capital expenditure. The remaining short-term response – spending reserves – is of course not an indefinite option, but one that is already having some impact. This is the subject of discussion in Chapter 13.

12.10 Resources and further reading

Brookes, M. (2002) *Funding our future II: Understand and allocate costs*. London: ACEVO. See www.acevo.org.uk/

Centre for Interfirm Comparison – Fundraising ratios
www.cifc.co.uk/Fundratios2003.htm

Charities' SORP 2000. A number of the terms used in this chapter refer to the charities' SORP. For further information see
www.charity-commission.gov.uk/publications/sorpcc62.asp

Charities' Tax Reform Group. www.charitytax.info/

Inland Revenue guidance for charities: www.inlandrevenue.gov.uk/charities/

Palmer, P., Isaacs, M. & D'Silva, K. (2001) 'Charity SORP compliance – findings of a research study'. *Management Auditing Journal*, 16/5: 255-262. NCB University Press

Remuneration economics (2003) *15th annual Voluntary Sector Salary Survey*.
http://www.celre.co.uk/

Sayer, K (2003) *Practical Guide to Charity Accounting*. London: Directory of Social Change. www.dsc.org.uk/acatalog/Finance.html

Unwin, J. (1999) *Funding our Future: Who Pays for Core Costs?* London: ACEVO.
www.acevo.org.uk/

Table 61: Breakdown of current expenditure by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Fundraising and publicity costs	5.8	46.9	209.2	337.9	702.6	**1,302.4**
Trading subsidiary costs	0.1	0.4	97.4	263.7	508.3	**869.9**
Total cost of generating funds	**6.0**	**47.3**	**306.6**	**601.6**	**1,210.9**	**2,172.3**
Grants to individuals	15.6	24.4	58.3	50.6	126.9	**275.8**
Grants to the voluntary sector	68.9	203.1	601.6	607.1	584.4	**2,065.2**
Grants to the public sector	30.2	25.2	121.3	115.9	777.3	**1,069.8**
Grants to other institutions	0.0	3.6	2.5	12.4	0.1	**18.6**
Total grants	**114.7**	**256.3**	**783.6**	**786.0**	**1,488.8**	**3,429.4**
Charitable activities	**189.9**	**1,066.1**	**3,029.5**	**3,859.6**	**5,040.1**	**13,185.1**
Management & administration	**94.5**	**227.9**	**686.7**	**404.5**	**194.8**	**1,608.5**
Total current expenditure	**405.1**	**1,597.6**	**4,806.3**	**5,651.8**	**7,934.6**	**20,395.4**

Table 62: Breakdown of current expenditure by size of organisation, 2000/01 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Fundraising and publicity costs	13.2	48.0	178.8	340.0	623.2	**1,203.3**
Trading subsidiary costs	0.2	0.6	138.6	249.8	480.1	**869.2**
Total cost of generating funds	**13.4**	**48.6**	**317.3**	**589.8**	**1,146.7**	**2,115.9**
Grants to individuals	13.6	17.4	60.8	54.9	105.0	**251.8**
Grants to the voluntary sector	58.1	290.6	757.9	713.4	551.4	**2,371.3**
Grants to the public sector	11.4	34.0	106.9	146.3	730.6	**1,029.1**
Grants to other institutions	0.0	3.4	14.5	13.4	0.6	**32.0**
Total grants	**83.1**	**345.4**	**940.1**	**928.0**	**1,387.6**	**3,684.2**
Charitable activities	**208.9**	**1,015.1**	**2,968.5**	**3,688.2**	**5,060.6**	**12,941.3**
Management & administration	**104.5**	**224.3**	**640.3**	**386.9**	**193.2**	**1,549.2**
Total current expenditure	**410.0**	**1,633.4**	**4,866.2**	**5,592.9**	**7,788.1**	**20,290.6**

Table 63: Change in current expenditure by size of organisation, 2000/01 – 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Fundraising and publicity costs	-7.4	-1.1	30.4	-2.1	79.4	**99.2**
Trading subsidiary costs	-7.4	-1.1	30.4	-2.1	79.4	**99.2**
Total cost of generating funds	**-7.5**	**-1.3**	**-10.8**	**11.8**	**64.2**	**56.4**
Grants to individuals	1.9	7.0	-2.5	-4.3	21.9	**24.0**
Grants to the voluntary sector	10.9	-87.5	-156.3	-106.2	33.1	**-306.1**
Grants to the public sector	18.8	-8.8	14.3	-30.4	46.7	**40.7**
Grants to other institutions	0.0	0.2	-12.1	-1.0	-0.4	**-13.3**
Total grants	**31.6**	**-89.1**	**-156.5**	**-141.9**	**101.2**	**-254.8**
Charitable activities	**-19.0**	**50.9**	**61.0**	**171.4**	**-20.5**	**243.8**
Management & administration	**-9.6**	**1.1**	**36.6**	**18.5**	**2.1**	**48.7**
Total current expenditure	**-0.4**	**2.5**	**5.0**	**-0.9**	**-0.5**	**5.8**

Table 64: Breakdown of current expenditure by size of organisation, 2001/02 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Fundraising and publicity costs	1.4	2.9	4.4	6.0	8.9	**6.4**
Trading subsidiary costs	0.0	0.0	2.0	4.7	6.4	**4.3**
Total cost of generating funds	**1.5**	**3.0**	**6.4**	**10.6**	**15.3**	**10.7**
Grants to individuals	3.8	1.5	1.2	0.9	1.6	**1.4**
Grants to the voluntary sector	17.0	12.7	12.5	10.7	7.4	**10.1**
Grants to the public sector	7.4	1.6	2.5	2.1	9.8	**5.2**
Grants to other institutions	0.0	0.2	0.1	0.2	0.0	**0.1**
Total grants	**28.3**	**16.0**	**16.3**	**13.9**	**18.8**	**16.8**
Charitable activities	**46.9**	**66.7**	**63.0**	**68.3**	**63.5**	**64.6**
Management & administration	**23.3**	**14.3**	**14.3**	**7.1**	**2.5**	**7.8**
Total current expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 65: Breakdown of current expenditure by size of organisation, 2000/01 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Fundraising and publicity costs	3.2	2.9	3.7	6.1	8.0	**5.9**
Trading subsidiary costs	0.1	0.0	2.8	4.5	6.2	**4.3**
Total cost of generating funds	**3.3**	**3.0**	**6.5**	**10.5**	**14.7**	**10.4**
Grants to individuals	3.3	1.1	1.2	1.0	1.3	**1.2**
Grants to the voluntary sector	4.2	17.8	15.6	12.8	7.1	**11.7**
Grants to the	2.8	2.1	2.2	2.6	9.4	**5.1**
Grants to other institutions	0.0	0.2	0.3	0.2	0.0	**0.2**
Total grants	**20.3**	**21.1**	**19.3**	**16.6**	**17.8**	**18.2**
Charitable activities	**51.0**	**62.1**	**61.0**	**65.9**	**65.0**	**63.8**
Management & administration	**25.5**	**13.7**	**13.2**	**6.9**	**2.5**	**7.6**
Total current expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

13. Assets and liabilities

Highlights

- Total assets in 2001/02 were £70.1 billion – a fall of 6.3% on 2000/01.
- Total assets included investments worth £41.1 billion. The value of investments held by the sector fell by 10.7% compared with the previous year.
- Total liabilities in 2001/02 were £8.6 billion – up by 6.7% on the previous year.
- Total funds – assets less liabilities – in 2001/02 were £61.6 billion, a fall of £5.2 billion on 2000/01.

13.1 Introduction

This chapter provides a summary of the voluntary sector's balance sheet by looking at assets and liabilities. Whereas the analysis of income and expenditure describes the incoming and outgoing resource flows over a twelve-month period, information from the balance sheet provides a snapshot of the net worth of the voluntary sector at the end of the financial year.

Balance sheet data are for the financial years 2000/01 and 2001/02, the latest available. All figures have been adjusted for inflation and are expressed in 2001/02 prices, so as to show real change. As in the case of income and expenditure, no one trend applies to the sector as a whole. Therefore, much of our analysis again splits the sector into groups according to their total income.

The next section presents definitions of the terms used in the analysis. The chapter then outlines the distribution of assets and liabilities across the sector, and highlights the importance of asset holdings to small general charities. This section includes a discussion of the ratio between expenditure and funds available, a key indicator of sustainability in the sector.

The main subjects of this chapter are a review of asset types and values, together with a discussion of the level of liabilities. The analysis of assets also looks at the voluntary sector's investments, and the losses borne by general charities during the period under review. The analysis of liabilities includes evidence of the increasing use of loan finance. This is followed by a review of net funds (the difference between assets and liabilities) and, for the first time, an analysis of restricted and unrestricted funds. The chapter concludes by providing detailed tabulations of assets, liabilities and funds, showing both proportions and real figures. Most of the charts used to illustrate the text are based on these tables.

13.2 Assets, liabilities and funds – definitions

Nearly all voluntary organisations hold some assets, in the form of buildings, office equipment, investments or cash. For many organisations, investment assets are a valuable source of income, whilst for others the main asset may be the building from which they operate. Either way, asset holdings underpin the sector's long-term viability. Broadly speaking, charities hold the following types of assets:

- fixed assets, which are mainly sub-divided into tangible assets (land, buildings, equipment) and investments.[14] Tangible assets are held for charitable use, and enable the organisation to fulfil its charitable purpose. Investment assets are held to generate a return, and may include property or equities; and
- current assets, which are mainly sub-divided into stocks and work in progress (such as stocks of unsold goods), debtors (amounts owed to the organisation) and cash on deposit at banks and building societies.[15]

An organisation's assets are usually offset to some degree by their liabilities, such as outstanding loans. Liabilities are either:

- short-term liabilities (creditors who are owed amounts due within one year of the balance sheet date); or
- long-term liabilities (creditors who are owed amounts due more than one year after the balance sheet date, plus any provisions for long-term liabilities or charges).

If short-term and long-term liabilities are subtracted from total assets, the balance equates to an organisation's total funds. Funds are an estimate of the organisation's net worth, and are sub-divided into:

- unrestricted funds (resources expendable at the discretion of the trustees);
- restricted funds (resources which can be expended, subject to the limitations placed upon their use by the donor); and
- endowment funds (capital assets that must be held either for investment or charitable use).

13.3 Assets, liabilities and funds – an overview

General charities' total assets in 2001/02 totalled £70.1 billion, compared with £74.8 billion in 2000/01 (Table 66). Their liabilities totalled £8.6 billion, up from £8 billion in the previous year. Total funds therefore stood at £61.6 billion in 2001/02, down from £66.7 billion in 2000/01.

[14] Organisations can also hold intangible assets (such as intellectual property), and inalienable and historic assets (such as a historic building or a collection of paintings).

[15] The SORP allows some investments to be held as current assets. For the purposes of this chapter, current and fixed asset investments have been grouped together. Cash awaiting reinvestment (and therefore identified as an investment asset in charity accounts) has been added to cash in our analysis.

Table 66: Total assets, liabilities and funds, 2000/01 and 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01						
Assets	3,216.1	7,441.5	17,558.3	15,602.1	31,064.9	**74,882.9**
Liabilities	322.3	362.2	1,562.2	2,117.7	3,662.8	**8,027.2**
Funds	2,893.8	7,078.2	15,926.2	13,476.7	27,374.7	**66,749.6**
2001/02						
Assets	3,015.7	7,323.6	16,667.3	15,131.7	28,003.8	**70,142.1**
Liabilities	317.2	487.9	1,637.6	2,193.6	3,932.1	**8,568.4**
Funds	2,695.3	6,835.1	15,033.0	12,937.2	24,071.3	**61,571.9**

Source: NCVO

This fall in the net funds of the sector reflects trends identified elsewhere in the Almanac. Despite a fall in the sector's total income of 2% in 2001/02, levels of current expenditure remained stable, and showed a small increase of 0.5% in 2001/02. The sector as a whole was able to maintain current expenditure levels by expending funds held in reserve, or by borrowing money. The greater use of loan finance is evident from the increase in the sector's liabilities between 2000/01 and 2001/02.

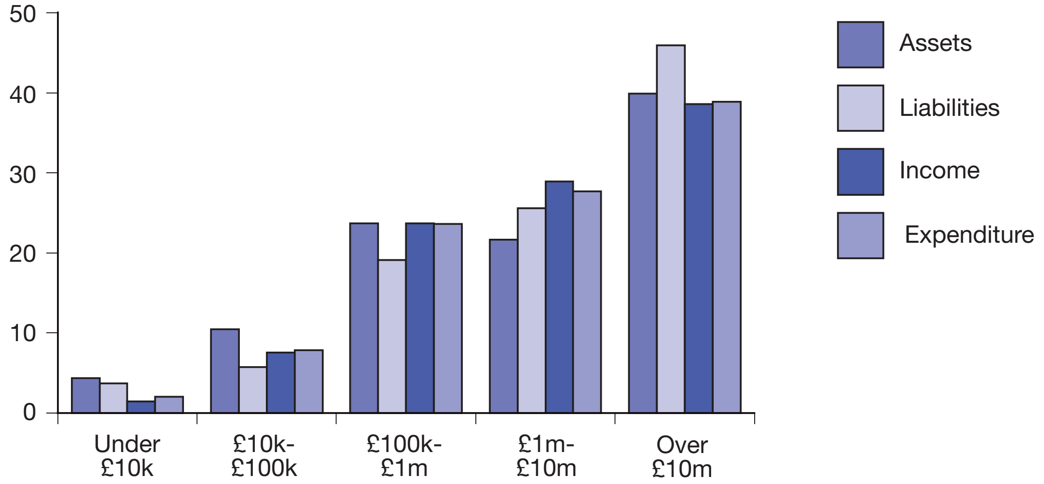
However, falling income and rising expenditure did not account for all of the £5.2 billion fall in net funds. The sector suffered heavy losses in the value of its fixed assets, and in particular its investment holdings. Losses in the value of fixed assets totalled £3.5 billion in 2001/02, on top of the £2.6 billion loss in 2000/01.

13.4 The distribution of assets and liabilities

The distribution of assets and liabilities continued to differ from income and expenditure. In particular, smaller general charities had a greater share of assets (Figure 40). For example, 4.3% of the sector's assets were held by organisations with an income of less than £10,000, but this group accounted for 1.4% of total income and 2% of total current expenditure. The implication is that the smallest general charities control assets greater than their annual incomes would suggest.

It has already been argued that net funds are indicative of the sector's relative health. The ratio between net funds and total current expenditure is a more refined indicator, particularly as many general charities hold reserves to cover future expenditure. Table 67 illustrates the relationship between net funds and total current expenditure. In 2001/02 total funds equated to three years' worth of total current expenditure. This broad measure of sustainability suggests that the sector held less in reserve in relation to its size than in 1994/95.

Figure 40: Share of total assets, liabilities, income and expenditure by size of organisation, 2001/02 (%)



Source: Table 15.2, Table 15.3, income table, and expenditure table

Table 67: Funds expressed as number of years' operating costs

	Under £100k	£100k-£1m	£1m-£10m	Over £10m	All/ Average
1994/95					
Total current expenditure (£ million)	1,425.9	3,624.0	3,828.1	4,068.1	**12,946.2**
Total funds (£ million)	8,133.1	9,166.1	12,629.4	11,509.4	**41,438.0**
Ratio of funds: expenditure (years)	5.8	2.5	3.3	2.8	**3.2**
2001/02					
Total current expenditure (£ million)	2,002.7	4,806.3	5,651.8	7,934.6	**20,395.4**
Total funds (£ million)	9,530.4	15,033.0	12,937.2	24,071.3	**61,571.9**
Ratio of funds: expenditure (years)	4.7	3.1	2.2	3.0	**3.0**

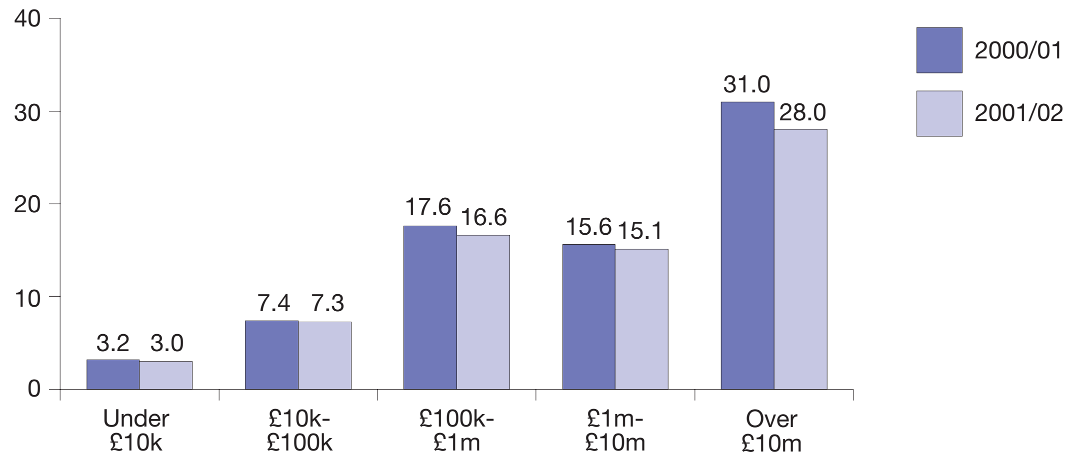
Source: NCVO

This measure is far from perfect however. It should be recognised that a significant proportion of total funds are tied up as fixed assets and therefore are not available for immediate use or liquidation. Moreover, it seems counter-intuitive to suggest that the smallest general charities, who have the highest funds/expenditure ratio, are the most sustainable. This higher ratio reflects a larger proportion of funds in the form of fixed assets (the buildings and equipment required to operate). Nevertheless, general charities with an income under £100,000 saw this ratio fall from 5.8 to 4.7 years' worth of expenditure between 1994/95 and 2001/02. This is further evidence of the difficulties faced by small general charities. Organisations with incomes between £1million and £10 million had the lowest level of funds in relation to expenditure, holding the equivalent of 2.2 years' worth of operating costs. This was also a significant fall in comparison to 1994/95.

13.5 Assets

Total assets in 2001/02 were £70.1 billion. This figure represents a fall of £4.7 billion from 2000/01. The assets held by all income groups fell in value between 2000/01 and 2001/02 (Figure 41). General charities with incomes of over £10 million experienced the greatest fall in asset values; a 9.9% fall in value equated to a drop of £3.1 billion.

Figure 41: Total assets by size of organisation (£billion)

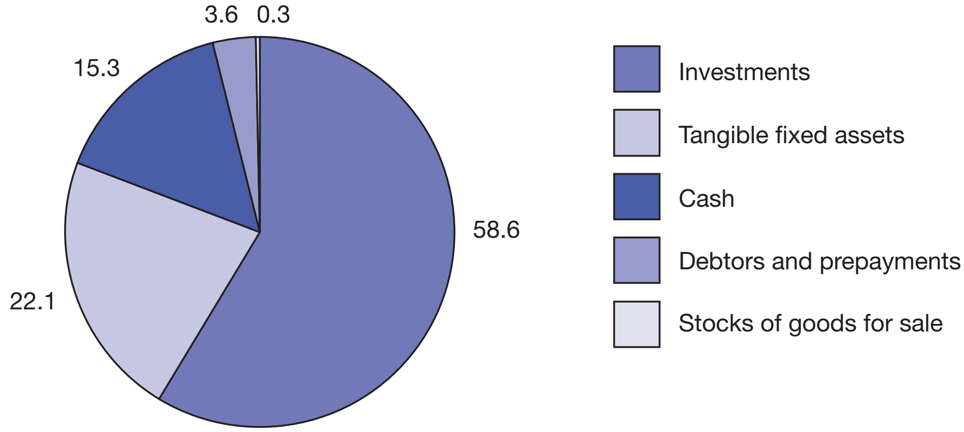


Source: Table 71 and 74

These differences are explained by the pattern of investment holdings: larger organisations held a greater proportion of their assets as investments and were therefore more exposed to equity market fluctuations. Smaller organisations held a greater proportion of their wealth as fixed assets (such as land and buildings), which increased in value.

Fixed assets (investments plus tangible fixed assets) accounted for 80.7% of UK general charities' total assets (Figure 42). Investments, the largest single type of asset holding, were valued at £41.1 billion in 2001/02. Tangible fixed assets totalled £15.4 billion. Current assets (cash, debtors and stocks) accounted for the remaining 19.3% of total assets. Bank and cash deposits were the main type of current assets, amounting to £10.7 billion in 2001/02.

Figure 42: Total asset type, 2001/02 (%)



Source: Table 80

The asset holdings of different sizes of organisation are illustrated in Figure 43. It is immediately noticeable that the proportion of assets held as investments increased with size of organisation. In 2001/02, organisations with incomes below £10,000 held a quarter (24.6%) of their assets as investments. In contrast, those with incomes over £10 million held 74.1% of their assets as investments. Investment holdings in this group were dominated by just two general charities, the Wellcome Trust and the Garfield Weston Foundation. These two organisations collectively held investments of £10.7 billion, which represented 15.7% of the voluntary sector's assets.

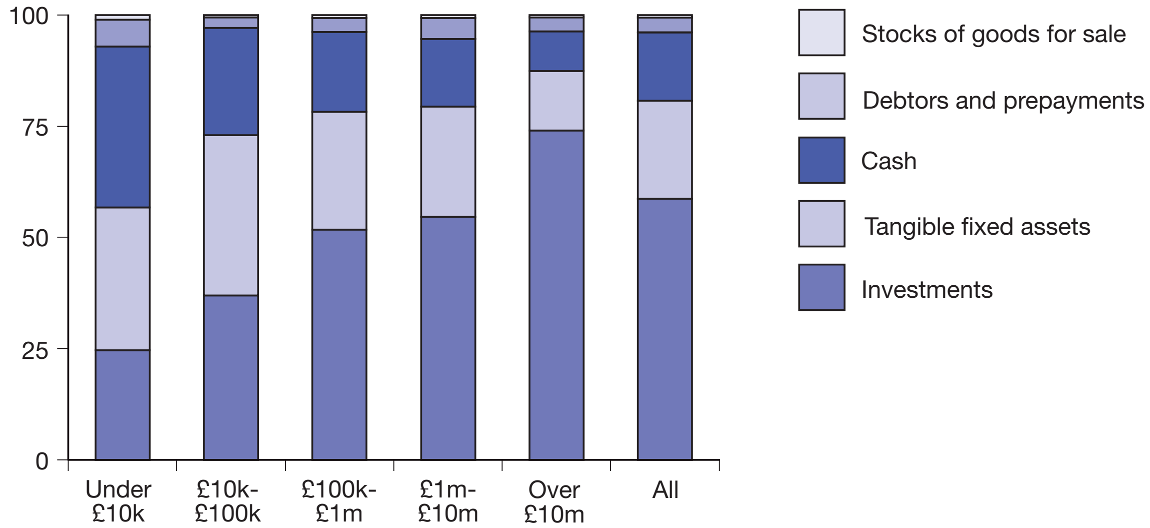
The proportion of assets held as tangible fixed assets (buildings, equipment etc) broadly decreased as the size of organisation increased. For example, tangible fixed assets represented 32% of total assets for the smallest organisations, but only 13.3% for the largest.

Small organisations held a larger proportion of their assets as bank and cash deposits. This might be an indication of a higher aversion to risk by trustees and management, though smaller organisations might also have a greater need for liquidity than larger organisations, in order to cope with day-to-day reality of managing cash flows.

13.5.1 Types of investment asset

General charities held investments to the value of £41.1 billion in 2001/02, compared with £46 billion in 2000/01, a fall of 10.7%. Investments are held to generate income, and Chapter 6 has already highlighted the role of investment returns to the sector. The income generated from investment holdings contributed £2.1 billion in 2001/02, or 10% of the sector's total income. Most trusts and foundations rely entirely upon investments to generate income, which in turn is applied to the activities of operating charities. Therefore, the performance of the sector's investment holdings is of importance to organisations other than those that simply hold investments.

Figure 43: Asset type by size of organisation, 2001/02 (%)



Source: Table 80

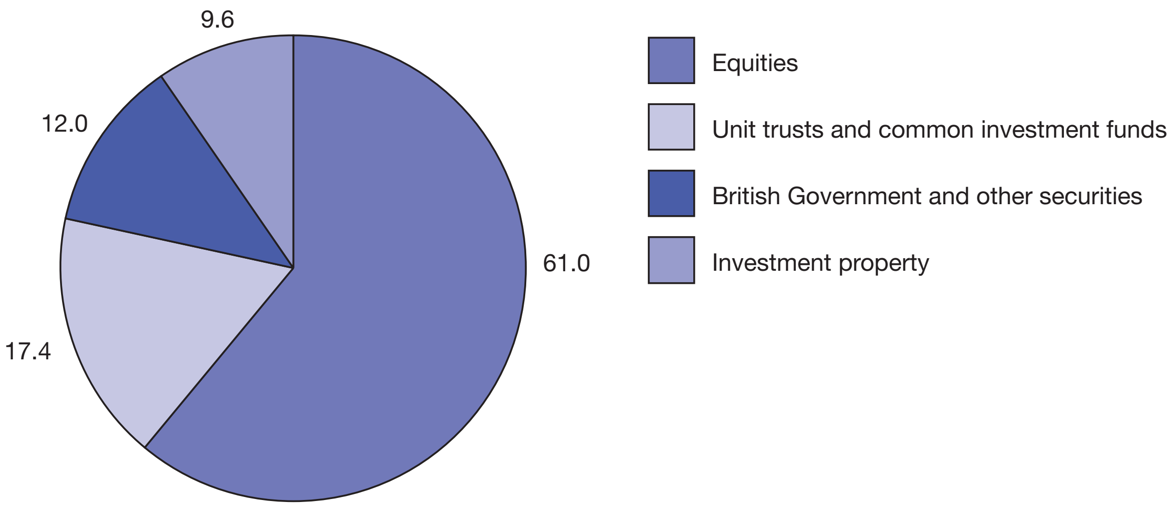
The different types of investment held by general charities are summarised in Figure 44. Equities constituted the largest part of the sector's portfolio, accounting for £25.1 billion in 2001/02, or 61%, of total investments. General charities also invested in pooled equity funds, including unit trusts and common investment funds (CIFs). These were valued at £7.2 billion in 2001/02 (17.4% of investments). British Government securities, or interest-bearing loans to the Government, were worth £4.9 billion (12% of investments). Finally, investment property holdings, held to generate rental income, were valued at £3.9 billion (9.6% of total investments).[16]

The volatility of equity markets since mid-2001 resulted in a challenging period in 2001/02 for all organisations with investments. Whilst falls are not simply the result of falling markets – reserves have been partially liquidated to fund expenditure – the correlation with stock market performance is clear.

Equities decreased in value from £29.1 billion in 2000/01 to £25 billion in 2001/02, a fall of just over 14%. Unit trusts and CIFs fared better, but still experienced a fall of 10.3%, declining from £8 billion in 2000/01 to £7.1 billion in 2001/02. Government securities experienced the smallest decline of 3.3% at £4.9 billion. The only category of investment to show an increase was that of property, which increased from £3.7 billion to £3.9 billion: a rise of 4.5% since 2000/01 (Figure 45). Investment gains and losses are discussed in the following section.

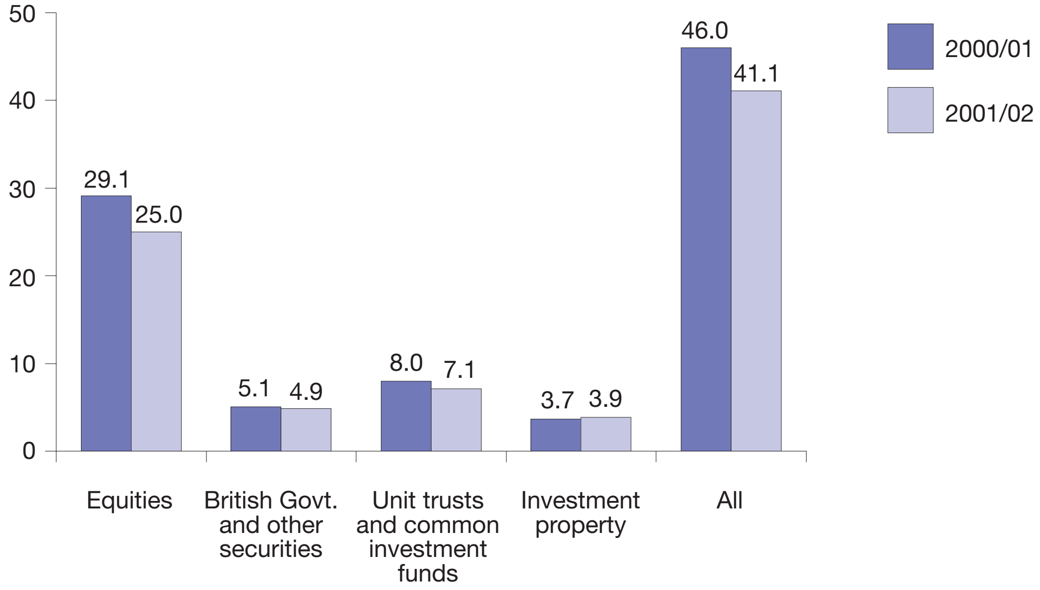
[16] Although property is a tangible fixed asset, where land or buildings are held solely to generate income, they are classified as investment holdings.

Figure 44: Investment assets by type, 2001/02 (%)



Source: Table 71

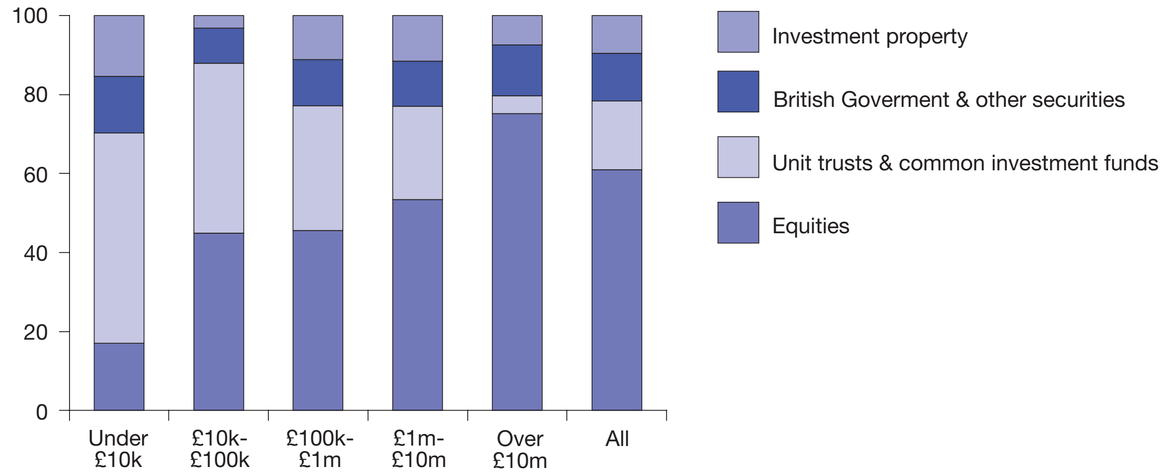
Figure 45: Investment type (£billion)



Source: Table 71 and 74

The pattern of investments held also varied significantly according to size of organisation. Equities were much more important for the largest organisations, making up 74.1% of their portfolio, compared with just 17% for those with an income under £10,000 (Figure 46).

Figure 46: Investment type by size of organisation, 2001/02 (%)



Source: Table 71

The significance of unit trusts and CIFs also varied for different sized organisations. They represented 53.2% of investments for those with incomes of under £10,000, but only 4.6% for those with incomes of more than £10 million. CIFs offer tax advantages, specifically exemption from stamp duty and capital gains tax, and their fees are lower than those of unit trusts aimed at the retail market. They also offer an attractive option for trustees and management with little investment experience who want a relatively low-risk option. British Government and other securities and property were more evenly distributed across the different sizes of organisations.

Voluntary organisations and investment
Ian Allsop, Senior Reporter, *Charity Finance*

Until recently, income from investment paid for almost a fifth of UK voluntary sector activity. For many organisations, it's their entire source of funds. For others, even where investment income produces only a small percentage of resources, it can be of disproportionately high importance because, unlike some types of income that are tied to named projects and activities, investment income is usually unrestricted. It can be used for vital but often hard-to-fund core activities like training and research, or to further the organisation's objectives in distinctive and innovative ways.

Investment returns come in two forms: capital gains (or losses) on the value of investments held and income from interest or dividends. In recent years voluntary organisations have been hit on both fronts. The sustained bear market of 2000 to

2003 cut the value of equity investments by half, savaging charity reserves and forcing some organisations to make tough decisions about the services they could provide.

For many, the more severe and lasting problem has been with income. The interest rates that determine income from government bonds, a key component of most investment portfolios, have reached and remained at historically low levels. Admittedly, so has inflation – but charity spending is more likely to be driven by wage levels, which rise faster than retail inflation. Receipts from share dividends have also been severely cut with the phasing out of the income credit that charities, as non-taxpayers, used to receive on dividend payouts.

This income squeeze has encouraged voluntary organisations to take a good look at exactly what they want their investments to achieve (and for how long) and to consider new investment strategies. These might involve investing part of a charity's funds in products outside the traditional asset classes of shares and gilts. Higher returns may be found in hedge funds, property or corporate bonds, but trustees need to be able to understand the different types of risk associated with these.

13.5.2 Gains and losses on fixed assets

The preceding section has highlighted the fall in the value of investments experienced by general charities. Movements in the value of fixed assets, and any other gains or losses arising from the disposal of fixed assets, are recorded as gains and losses in charity accounts. Such gains and losses can be either *realised* or *unrealised.* Investments or property that are sold are realised, but when an organisation revalues its property or investments it incurs an unrealised gain or loss.

The sector incurred a total loss on the value of its fixed assets of £3.5 billion in 2001/02. Of this amount, £848.7 million was a realised loss (Table 68). Unrealised movements in the value of the sector's assets accounted for the remaining net losses. Assets held for charitable use (such as buildings from which organisations operate) actually increased in value by £116 million. However, this was dwarfed by the fall in the value of assets held for investment purposes. Although this decrease of £2.8 billion was an unrealised loss, it nevertheless represents a significant decline in the value of the sector's investments.

Table 69 presents data for 2000/01, a year in which the sector saw total losses on fixed assets of £2.6 billion. Again, a large proportion of this net loss was attributed to unrealised falls in the value of investment assets. In both years, general charities with incomes over £10 million accounted for a large proportion of the total net loss.

Table 68: Breakdown of gains and losses by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Realised gains and losses	37.9	65.0	-44.1	-98.6	-808.9	**-848.7**
Unrealised gains and losses (charitable use assets)	4.7	40.7	49.0	17.9	4.0	**116.3**
Unrealised gains and losses (investment assets)	-49.3	-122.2	-229.1	-393.7	-1,956.2	**-2,750.4**
Total gains and losses	**-6.6**	**-16.4**	**-224.3**	**-474.4**	**-2,761.1**	**-3,482.9**

Source: NCVO

Table 69: Breakdown of gains and losses by size of organisation, 2000/01 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Realised gains and losses	4.6	68.6	35.1	118.0	101.9	**328.2**
Unrealised gains and losses (charitable use assets)	0.0	13.9	15.2	55.8	3.1	**88.0**
Unrealised gains and losses (investment assets)	-33.1	3.9	-29.9	-199.0	-2,799.7	**-3,057.9**
Total gains and losses	**-28.6**	**86.4**	**20.5**	**-25.3**	**-2,694.8**	**-2,641.6**

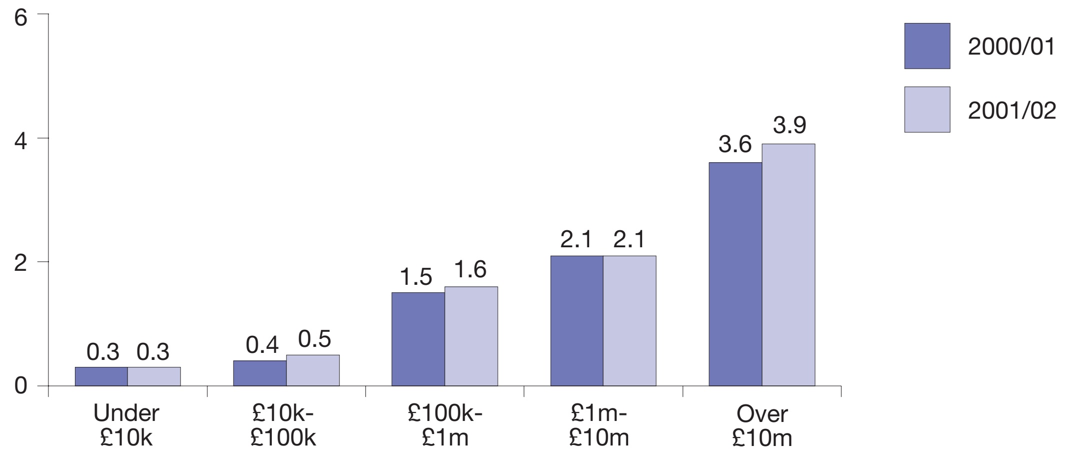
Source: NCVO

13.6 Liabilities

General charities' total liabilities – amounts owed and any provisions made for future commitments – totalled £8.6 billion in 2001/02. This represented an increase of 6.7% on the previous year (Figure 47). Total liabilities were equivalent to 12.2% of total assets in 2001/02. The increase in liabilities may have been driven by the increasing use of loan finance, the subject of discussion in the following section.

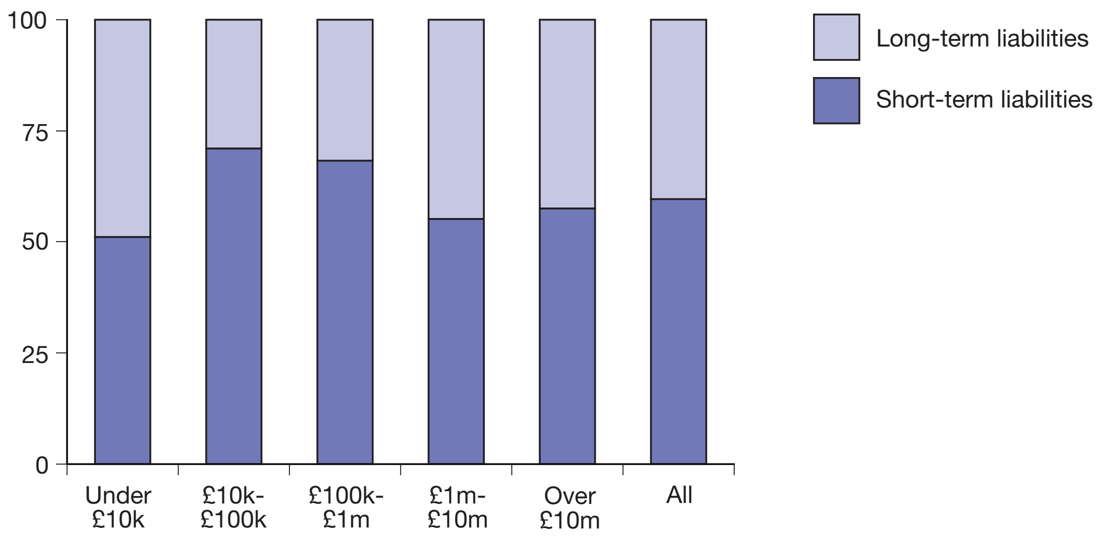
Liabilities are sub-divided into two categories, short term creditors (payment due within one year) and long-term creditors and provisions (due after one year). These are illustrated in Figure 48. The balance of liabilities is towards the short term: 59.6% of liabilities are due for payment within one year. There was little change in the balance between short-term and long-term liabilities between 2000/01 and 2001/02.

Figure 47: Total liabilities by size of organisation, (£billion)



Source: Table 72 and Table 75

Figure 48: Liability type by size of organisation, 2001/02 (%)



Source: Table 81

13.6.1 Loans and overdrafts

Short-term and long-term liabilities include outstanding loans. These loans range from short-term overdrafts to cover cash flow, to long-term mortgages to purchase fixed assets. The prevalence of loans and overdrafts are indicative of the increasing use of loan finance in the voluntary sector.

It has only proved possible to report information on loans and overdrafts for general charities with incomes of over £100,000 (Table 70). Data for smaller organisations are not sufficiently robust to publish estimates. Therefore, these figures underestimate the total use of loan finance in the sector as a whole. On this basis, loans and overdrafts totalled at least £1.75 billion in 2001/02, an increase of 18.3% on 2000/01. As a proportion of liabilities, loans and overdrafts increased from 20.3% in 2000/01 to 22.6% in 2001/02.

Table 70: Loans and overdrafts by size of organisation (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
2000/01	N/A	N/A	334.2	620.2	527.5	**1,481.8**
2001/02	N/A	N/A	471.7	744.4	536.2	**1,752.4**

Source: NCVO

Data on loans and overdrafts are supported by expenditure on interest payments. It is estimated that general charities with incomes above £100,000 spent £104.5 million on interest payments in 2001/02, a small increase upon the 2000/01 figure of £102.4 million. Expenditure on interest payments was equivalent to 6% of outstanding loans and overdrafts in 2001/02 and 6.9% in 2000/01. It would be simplistic to argue that these figures represent an average rate of interest paid on loan finance by the sector. However, they are indicative, and the fall in this nominal rate corresponded with changes in UK interest rates.

Credit not debt – loan finance for the voluntary and community sector
Malcolm Hayday, Chief Executive, Charity Bank

Unlike business, voluntary and community organisations are not accustomed to using other people's money to finance their work. They tend to wait until they have completed their fundraising before spending money. This was not always the case. Before 1939, social investment (loans or investment at affordable cost from philanthropists) was not uncommon as a way of raising funds for social housing or settlements amongst other causes. Today, the sector is revisiting loan finance to help solve problems and to plan ahead and the Charity Commission has given guidance on social investment.

Loans are associated with acquiring or improving a building or other asset. The mortgage might be cheaper than the next rent review. But they can also be used to smooth out fluctuating donor payments, to pre-finance covenanted income, bridge that elusive Brussels payment, or even to finance investment in income-generating activities, or fund marketing activities that will drive donor recruitment. Loans should be used in conjunction with other types of funding: the loan multiplying the impact of the grant or own income in the way that business uses loans to lever equity. Loans should not be used as the sole source of funding, especially where income generation is tight, nor to dig a bigger hole!

*future*builders' mixed funding strategy may foreshadow a more active use of financial tools other than the plain vanilla grant as funders also see that loans can recycle resources, not only allowing the same money to be used more than once, but also permitting larger commitments to be considered. Loans can be structured over a number of years, allowing for a more strategic approach and repayments tailored to revenue generation. The need for a quick win disappears but the project has to show evidence of viability.

Are loans just for large charities? No! More than half of Charity Bank's borrowers have an income less than £500,000. The smallest has an income of just over £5,000. With the right technical advice, even very small organisations can use credit to advance their work without fear of debt. That help may not come from the traditional banks, but it can come from the new generation of community development finance institutions, some of which are charities themselves.

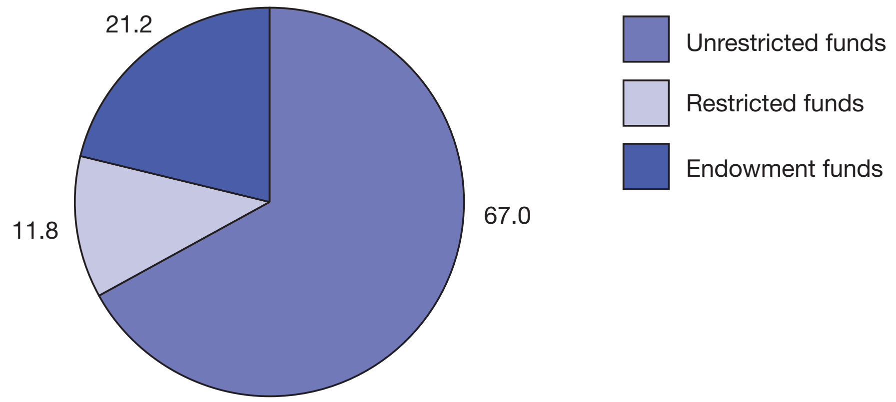
13.7 Total funds

Total funds, or assets less liabilities, represent the net worth of the voluntary sector. In 2001/02 the value of total funds was £61.6 billion, compared with £66.7 billion in 2000/01 (a fall of 7.6%). Funds are divided into three categories: unrestricted, restricted, and endowments (Figure 49).

Unrestricted funds are funds that are available for the purposes of the charity, and can be spent as the trustees see fit within the stated objects of the charity. The trustees are free to set priorities and decide how and when to spend the funds (Sayer, 2003). Unrestricted funds of £41.2 billion constituted the largest share of total funds in 2001/02, with 67% of the total (69% in 2000/01). For organisations with incomes below £10,000, unrestricted funds accounted for 84.7% of total funds, whereas for those organisations with incomes over £10 million, unrestricted funds accounted for 67.9% (Figure 50).

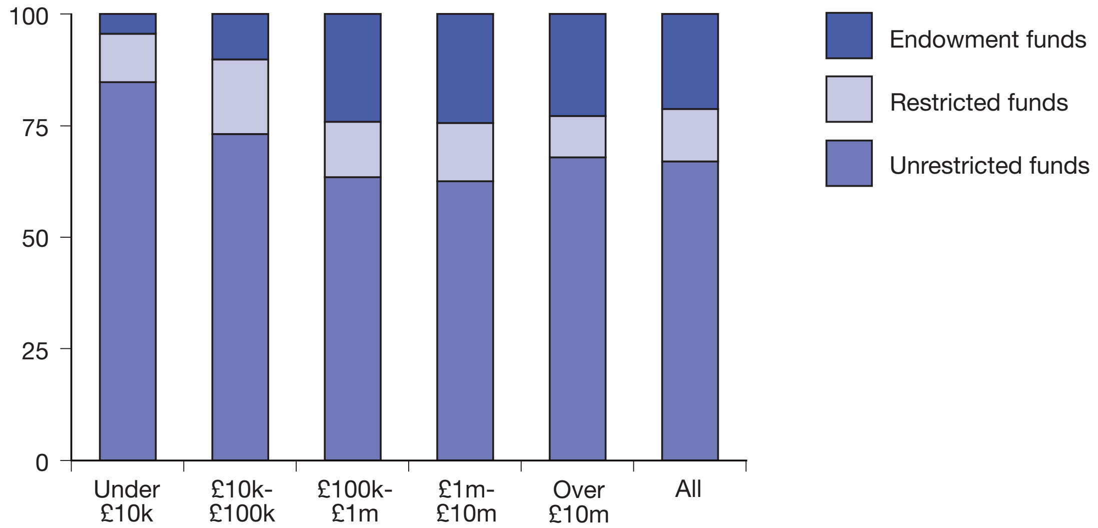
Restricted funds are subject to special trusts, or instructions, specified by the donor. Restricted funds made up the smallest share of total funds (11.8%) in 2001/02, and were worth £7.2 billion. Restricted funds increased as a proportion of the total, from 10.9% in 2000/01. For organisations with incomes below £10,000, restricted funds accounted for 10.9% of total funds, whereas for those organisations with incomes over £10 million restricted funds accounted for 9.3%.

Figure 49: Total funds by type, 2001/02 (%)



Source: Table 82

Figure 50: Total fund type by size of organisation, 2001/02 (%)



Source: Table 82

Finally, endowment funds are capital funds that are predominantly non-expendable. Endowment funds were worth £13.0 billion in 2001/02, or 21.2% of total funds. This type of fund increased as a proportion of the total, from 20.2% in 2000/01. For organisations with incomes below £10,000, endowment funds accounted for 4.4% of total funds, whereas for those organisations with incomes over £10 million endowment funds accounted for 22.8%. This may reflect the high proportion of legacy income accounted for by these large general charities (Chapter 6).

13.8 Conclusion

Despite significant falls in the value of investments, the voluntary sector is still able to deploy a significant asset base to generate future income streams and to provide a physical base for charitable activities. The £5.2 billion in the erosion of the voluntary sector's net worth is important and worrying: however, it would be improper to conclude this discussion without referring to the earlier, large gains in investment values made in the 1990s. The value of investments can indeed go down as well as up. Despite the recent falls recorded by this analysis, the sector's asset base has expanded significantly in comparison to the 1994/95 benchmark.

There are also a number of optimistic points upon which to conclude. Small general charities still command significant fixed and current assets, and these will undoubtedly cushion them from the tough financial environment within which they are now working. At the time of writing, a more bullish equity market and the start of an upward trend in interest rates are likely to help the sector to repair its damaged balance sheet. Most interestingly, the increasing use of loan finance may be indicative of a more intelligent approach to the use and deployment of assets, from the perspective of both grant-makers (or increasingly loan-makers?) and operating service delivery organisations. It will be interesting to see how an upward trend in interest rates impacts upon this developing approach to financing the voluntary sector.

13.9 Resources and further reading

Charity Bank: www.charitybank.org

Charity Commission Operational Guidance on Borrowing and Mortgages – The Financing of Social Enterprises: Bank of England May 2003.
www.bankofengland.co.uk

Charities SORP 2000. A number of the terms used in this chapter refer to the charities SORP. For further information see
www.charity-commission.gov.uk/publications/sorpcc62.asp

Community development finance institutions: www.cdfa.org.uk

HM Treasury – *future*builders proposals.
www.hm-treasury.gov.uk/spending_review/spend_ccr/spend_ccr_voluntary/spend_ccr_fbproposals.cfm

Sayer, K (2003) *Practical Guide to Charity Accounting*. London: Directory of Social Change. www.dsc.org.uk/acatalog/finance.html

Wood, C. (2003) *The Good Investment Guide for the Voluntary Sector.* London: NCVO.

Table 71: Breakdown of assets by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Tangible fixed assets	966.2	2,643.1	4,406.3	3,752.9	3,715.0	**15,483.5**
Investments	742.8	2,710.3	8,650.1	8,283.6	20,751.4	**41,138.2**
Equities	126.4	1,216.7	3,937.5	4,421.7	15,389.1	**25,091.4**
British Government and other securities	106.8	242.1	1,015.0	955.5	2,612.4	**4,931.8**
Unit trusts and common investment funds	394.9	1,166.0	2,729.6	1,951.6	933.5	**7,175.6**
Investment property	114.6	85.6	968.0	954.8	1,816.3	**3,939.3**
Total fixed assets	**1,708.9**	**5,353.4**	**13,056.5**	**12,036.5**	**24,466.4**	**56,621.7**
Stock of goods for sale	31.4	11.0	52.6	70.9	76.8	**242.7**
Debtors and prepayments	180.4	173.1	536.4	731.3	928.4	**2,549.6**
Cash	1,095.0	1,779.0	3,016.2	2,288.0	2,532.0	**10,710.2**
Other assets	0.0	6.9	5.5	5.3	0.1	**17.8**
Total current assets	**1,306.7**	**1,970.1**	**3,610.9**	**3,095.2**	**3,537.4**	**13,520.3**
Total assets	**3,015.7**	**7,323.6**	**16,667.2**	**15,131.7**	**28,003.8**	**70,142.0**

Table 72: Breakdown of liabilities by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Short-term liabilities	162.1	346.3	1,118.0	1,211.6	2,265.4	**5,103.4**
Long-term liabilities	155.0	141.6	519.6	982.0	1,666.8	**3,465.0**
Total liabilities	**317.2**	**487.9**	**1,637.6**	**2,193.6**	**3,932.1**	**8,568.4**

Table 73: Breakdown of funds by size of organisation, 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Unrestricted funds	2,283.4	4,998.5	9,525.6	8,085.9	16,350.1	**41,243.5**
Restricted funds	293.4	1,149.1	1,878.7	1,692.4	2,236.3	**7,249.9**
Endowment funds	118.5	687.6	3,628.8	3,158.8	5,484.8	**13,078.5**
Total funds	**2,695.3**	**6,835.1**	**15,033.0**	**12,937.2**	**24,071.3**	**61,571.9**

Table 74: Breakdown of assets by size of organisation, 2000/01 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Tangible fixed assets	969.2	2,626.4	4,120.1	3,499.7	3,514.3	**14,729.7**
Investments	812.6	2,817.0	9,561.2	9,052.1	23,817.7	**46,060.6**
Equities	160.9	1,287.6	4,255.2	4,760.0	18,724.6	**29,188.3**
British Government and other securities	143.6	233.3	1,053.0	1,087.2	2,583.7	**5,100.8**
Unit trusts and common investment funds	389.5	1,209.5	3,349.9	2,193.1	861.5	**8,003.5**
Investment property	118.6	86.7	903.0	1,011.7	1,647.8	**3,767.8**
Total fixed assets	**1,781.8**	**5,443.5**	**13,681.2**	**12,551.8**	**27,332.0**	**60,790.3**
Stock of goods for sale	28.1	10.9	46.8	69.8	79.2	**234.8**
Debtors and prepayments	226.5	104.1	501.9	705.9	857.7	**2,396.1**
Cash	1,179.0	1,877.6	3,321.6	2,266.8	2,789.4	**11,434.4**
Other assets	0.7	5.3	6.5	7.8	6.7	**27.0**
Total current assets	**1,434.4**	**1,997.9**	**3,877.0**	**3,050.3**	**3,732.9**	**14,092.5**
Total assets	**3,216.1**	**7,441.5**	**17,558.3**	**15,602.1**	**31,064.9**	**74,882.9**

Table 75: Breakdown of liabilities by size of organisation, 2000/01 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Short-term liabilities	195.3	219.5	1,088.9	1,194.5	2,072.3	**4,770.5**
Long-term liabilities	127.0	142.7	473.4	923.2	1,590.4	**3,256.7**
Total liabilities	**322.3**	**362.2**	**1,562.2**	**2,117.7**	**3,662.8**	**8,027.2**

Table 76: Breakdown of funds by size of organisation, 2000/01 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Unrestricted fund	2,454.9	5,155.3	10,280.0	8,436.5	19,699.8	**46,026.5**
Restricted fund	288.4	1,214.5	1,933.8	1,618.7	2,198.6	**7,254.0**
Endowment fund	150.6	708.4	3,712.4	3,421.4	5,476.2	**13,469.0**
Total funds	**2,893.8**	**7,078.2**	**15,926.2**	**13,476.7**	**27,374.7**	**66,749.6**

Table 77: Change in assets by size of organisation, 2000/01 – 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Tangible fixed assets	-3.0	16.7	286.2	253.2	200.7	**753.8**
Investments	-69.8	-106.7	-911.1	-768.5	-3,066.3	**-4,922.4**
Equities	-34.5	-70.9	-317.7	-338.3	-3,335.5	**-4,096.9**
British Government and other securities	-36.9	8.7	-38.0	-131.6	28.8	**-169.0**
Unit trusts and common investment funds	5.4	-43.5	-620.3	-241.6	72.0	**-828.0**
Investment property	-4.0	-1.1	65.0	-56.9	168.5	**171.5**
Total fixed assets	**-72.9**	**-90.1**	**-624.7**	**-515.3**	**-2,865.6**	**-4,168.6**
Stock of goods for sale	3.3	0.1	5.8	1.1	-2.4	**7.9**
Debtors and prepayments	-46.1	69.0	34.5	25.4	70.7	**153.5**
Cash	-84.0	-98.6	-305.4	21.2	-257.4	**-724.2**
Other assets	-0.7	1.6	-1.0	-2.5	-6.7	**-9.2**
Total current assets	**-127.7**	**-27.8**	**-266.1**	**44.9**	**-195.5**	**-572.2**
Total assets	**-200.4**	**-117.9**	**-891.0**	**-470.4**	**-3,061.1**	**-4,740.8**

Table 78: Change in liabilities by size of organisation, 2000/01 – 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Short-term liabilities	-33.2	126.8	29.1	17.1	193.1	**332.9**
Long-term liabilities	28.0	-1.1	46.2	58.8	76.4	**208.37**
Total liabilities	**-5.1**	**125.7**	**75.4**	**75.9**	**269.3**	**541.2**

Table 79: Change in funds by size of organisation, 2000/01 – 2001/02 (£million)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Unrestricted funds	-171.5	-156.8	-754.4	-350.6	-3,349.7	**-4,783.0**
Restricted funds	5.0	-65.4	-55.1	73.7	37.7	**-4.1**
Endowment funds	-32.1	-20.8	-83.6	-262.6	8.6	**-390.50**
Total funds	**-198.5**	**-243.1**	**-893.2**	**-539.5**	**-3,303.4**	**-5,177.7**

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Table 80: Breakdown of assets by size of organisation, 2001/02 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Tangible fixed assets	32.0	36.1	26.4	24.8	13.3	**22.1**
Investments	24.6	37.0	51.9	54.7	74.1	**58.6**
Equities	4.2	16.6	23.6	29.2	55.0	**35.8**
British Government and other securities	3.5	3.3	6.1	6.3	9.3	**7.0**
Unit trusts and common investment funds	13.1	15.9	16.4	12.9	3.3	**10.2**
Investment property	3.8	1.2	5.8	6.3	6.5	**5.6**
Total fixed assets	**56.7**	**73.1**	**78.3**	**79.5**	**87.4**	**80.7**
Stock of goods for sale	1.0	0.2	0.3	0.5	0.3	**0.3**
Debtors and prepayments	6.0	2.4	3.2	4.8	3.3	**3.6**
Cash	36.3	24.3	18.1	15.1	9.0	**15.3**
Other assets	0.0	0.1	0.0	0.0	0.0	**0.0**
Total current assets	**43.3**	**26.9**	**21.7**	**20.5**	**12.6**	**19.3**
Total assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 81: Breakdown of liabilities by size of organisation, 2001/02 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Short-term liabilities	51.1	71.0	68.3	55.2	57.6	**59.6**
Long-term liabilities	48.9	29.0	31.7	44.8	42.4	**40.4**
Total liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
As a % of total assets	**10.5**	**6.7**	**9.8**	**14.5**	**14.0**	**12.2**

Table 82: Breakdown of funds by size of organisation, 2001/02 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Unrestricted funds	84.7	73.1	63.4	62.5	67.9	**67.0**
Restricted funds	10.9	16.8	12.5	13.1	9.3	**11.8**
Endowment funds	4.4	10.1	24.1	24.4	22.8	**21.2**
Total funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 83: Breakdown of assets by size of organisation, 2000/01 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Tangible fixed assets	30.1	35.3	23.5	22.4	11.3	**19.7**
Investments	25.3	37.9	54.5	58.0	76.7	**61.5**
Equities	5.0	17.3	24.2	30.5	60.3	**39.0**
British Government and other securities	4.5	3.1	6.0	7.0	8.3	**6.8**
Unit trusts and common investment funds	12.1	16.3	19.1	14.1	2.8	**10.7**
Investment property	3.7	1.2	5.1	6.5	5.3	**5.0**
Total fixed assets	**55.4**	**73.2**	**77.9**	**80.4**	**88.0**	**81.2**
Stock of goods for sale	0.9	0.1	0.3	0.4	0.3	**0.3**
Debtors and prepayments	7.0	1.4	2.9	4.5	2.8	**3.2**
Cash	36.7	25.2	18.9	14.5	9.0	**15.3**
Other assets	0.0	0.1	0.0	0.0	0.0	**0.0**
Total current assets	**44.6**	**26.8**	**22.1**	**19.6**	**12.0**	**18.8**
Total assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 84: Breakdown of liabilities by size of organisation, 2000/01 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Short-term liabilities	60.6	60.6	69.7	56.4	56.6	**59.4**
Long-term liabilities	39.4	39.4	30.3	43.6	43.4	**40.6**
Total liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
As a % of total assets	**10.0**	**4.9**	**8.9**	**13.6**	**11.8**	**10.7**

Table 85: Breakdown of funds by size of organisation, 2000/01 (%)

	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
Unrestricted funds	84.8	72.8	64.5	62.6	72.0	**69.0**
Restricted funds	10.0	17.2	12.1	12.0	8.0	**10.9**
Endowment funds	5.2	10.0	23.3	25.4	20.0	**20.2**
Total funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

14. The Black and Minority Ethnic (BME) voluntary sector in the UK

Highlights

- Most BME organisations are small, with an income of less than £10,000.
- Faith groups dominate the known BME sector.
- Many BME organisations benefit multiple ethnic groups, rather than one particular ethnic group.

14.1 Introduction

In 1998, the Social Exclusion Unit reported that BME communities were more likely than the rest of the population to live in poor areas, be unemployed, have low incomes, live in poor housing, have poor health and be the victims of crime (SEU, 1998). BME groups are consequently known to experience high levels of disadvantage and social exclusion. Tellingly, the SEU argued that *'70 percent of all people from ethnic minorities [in Britain] are found living in the 88 most deprived local authority districts, compared with 40 percent of the general population'* (SEU, 2001:14).

As government policies increasingly confer BME charities a prominent role in the delivery of public services, the need to attain reliable data on the sector has become of the essence. In spite of BME voluntary organisations having operated in Britain for over four decades, and the systematic problems highlighted by the SEU, knowledge of the BME voluntary sector remains largely scarce. There is a startling lack of accurate data regarding the actual size, geographical distribution, core functions, and economic dimensions of BME organisations nationwide.

Within this context, the present chapter provides an initial analysis of the state of the country's BME voluntary sector. The opening section identifies the distinct origins and specific needs of the BME voluntary sector. The chapter then draws on data provided by CEMVO in order to examine the size, scope and economy of the sector.

This is followed by a detailed examination of the challenges currently facing BME charities and infrastructure bodies, including four main areas of concern, namely: sustainability, leadership and governance, capacity building, and access to ICT and financial literacy. Finally, the closing section looks in the direction of innovative and viable alternatives capable of delivering adequate public services provision, while widening participation.

14.2 Origins of the BME sector

The origins of many BME organisations in Britain today are to be found in large-scale immigration from the Caribbean and Asian Subcontinent during the 1950s and 1960s. As successive waves of migrants continued to enter the UK, the increasingly large presence of non-European, non-English speaking peoples on the outskirts of metropolitan areas placed a considerable strain on mainstream social provision. The often-inadequate response to the needs of the new arrivals gave way to the development of community-based associations and local BME self-help groups across the country.

Immigrant community-based voluntary associations rapidly spread to address the unmet wants of marginalised communities, as well as assisting their members to overcome the many social and economic barriers to integration they faced (McLeod *et al*, 2001). These organisations originally provided basic support for immediate needs such as accommodation and employment. Many evolved to cover larger areas of service provision, including education, health care, welfare benefits, immigration, translation, advocacy and counselling services. BME voluntary organisations therefore began to provide a wide range of services, which went some way towards redressing the discrimination and social exclusion their members experienced.

BME voluntary organisations can be said to have performed four major functions: overcoming social isolation; affirming values and beliefs; carrying out social and pastoral work; and acting as quasi-unions defending the interests of their members (Rex, 1991; McLeod *et al*, 2001).

14.2.1 Differences between the BME and mainstream sectors

The establishment of BME voluntary organisations in Britain stands in contrast with the development of the mainstream sector. As a result of their unequal starting points, these two sectors have not only evolved at different paces, but they have also responded differently to the contrasting needs of their target groups. Three main factors differentiate the BME sector from the mainstream:

- **age:** BME voluntary organisations are relatively much younger than many of their mainstream counterparts. The BME sector is, as a result, relatively underdeveloped compared with the more well-established, better-resourced and well-connected mainstream. Because of this youthfulness, BME organisations have yet to build effective infrastructures. The BME sector's national support structures are far less sophisticated and effective than those of the mainstream (Subhra, 2000);
- **size and scope:** in contrast with the mainstream, there are few BME voluntary organisations. Very few have achieved the size or scale of the medium and large-scale charities identified elsewhere in the Almanac. Most are small in size, locally based and limited in scope, often established to meet specific community needs. Such community-based organisations often lack a unified knowledge-based system as well as a coherent structure of networks, and thus tend to operate in a rather fragmented way; and
- **political influence:** few BME organisations are in a position to affect real change at a national level. In contrast, mainstream infrastructure bodies at local, regional and national levels enjoy both extensive networks and intelligence systems that enable them to represent broader interests on the national political arena. CEMVO remains the only national BME infrastructure organisation of its kind.

These historical and structural differences between the BME and mainstream sectors provide a clear case for the specific development of BME infrastructure organisations. The BME sector's close ties with ethnic communities give it a vantage point from where to widen participation in decision-making, tackle social exclusion and improve urban regeneration. The government has already taken steps towards greater co-operation with BME organisations. The Cross Cutting Review recommended both the establishment of stronger working relationships with the sector, and also encouraged widening community participation and capacity building in order to provide quality services.

14.3 The size and scope of the BME voluntary sector

The Council of Ethnic Minority Voluntary Sector Organisations (CEMVO), whose national database comprises around 10,000 BME voluntary organisations, has carried out the only comprehensive mapping exercise to date. This analysis is based on around 8,000 organisations for which data are available over and above contact information. Indeed, the database is still being developed, and consequently some of the results will stem from both the nature of the sample, and from the fact that some variables have fuller coverage (e.g. region) than others (annual income).

Across the database, less than 14% of organisations are registered charities, which is an indication of the limited overlap between the CEMVO data and the general charities data detailed in the rest of the Almanac. The relatively low proportion might be explained in part by the fact that the database is still being developed and the number is likely to increase. It is also an indication of the broad range of activities that BME voluntary organisations undertake, and also their small size. Numerous BME organisations are likely to be below the registration threshold or outside the scope of what is charitable.

14.3.1 Geographical distribution

Table 86 presents regional data on where BME voluntary organisations are located. It also shows the pattern of ethnic minority communities as a percentage of the total population in each region. BME voluntary organisations are located across the whole of the UK, although a distinct geography is evident. While the percentages are different, the regional profile of BME organisations tends to mirror regional population patterns. BME voluntary organisations are concentrated in London (44.4% of the total), the West Midlands (12.1%) and East Midlands (9.2%). Likewise, these are the regions with the largest proportion of ethnic minority populations; 28.8% of the total in London, 11.3% in the West Midlands and 4.9% in the East Midlands. London needs to be treated differently from the other regions, since this will be the base for many national organisations.

Evidence suggests that not only do BME voluntary organisations work with a broad geographical constituency, they also work with a broad range of beneficiaries (Figure 51). The main ethnic group benefiting from BME voluntary sector organisations is the South Asian community, which accounts for 29.7% of beneficiaries. This is followed by those working for black African and Carribean communities (15.2%). Many organisations

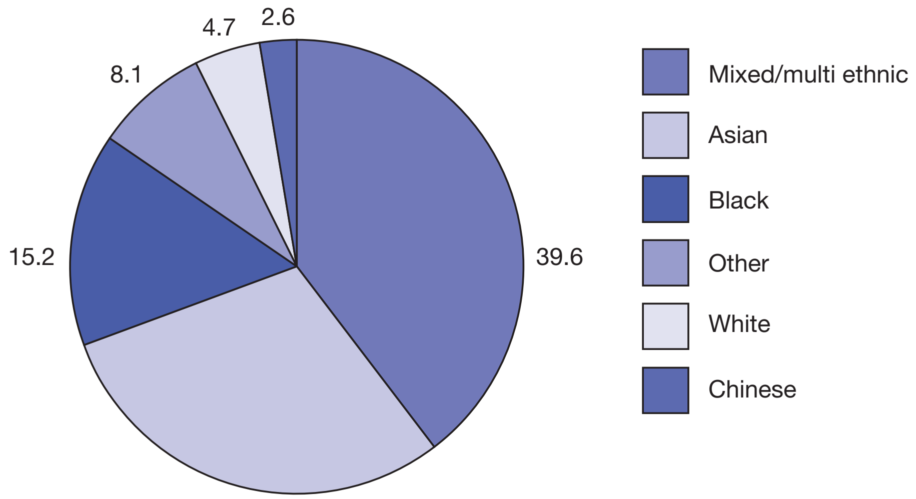
(39.6%) benefit people from a range of BME communities. A substantial 'other' category covers beneficiaries from a diverse range of backgrounds.

Table 86: Location of BME voluntary organisations by region

	% population from ethnic minorities	% total BME organisations
East	4.9	3.6
East Midlands	6.5	9.2
Greater London	28.8	44.4
North East	2.4	1.0
North West	5.6	5.4
South East	4.9	6.6
South West	2.3	4.4
West Midlands	11.3	12.1
Yorkshire/Humber	6.5	7.6
Northern Ireland	0.7	0.4
Scotland	2.0	3.2
Wales	2.1	1.9

Source: CEMVO

Figure 51: BME voluntary organisations, by beneficiary ethnicity group



Source: CEMVO

14.3.2 Areas of activity

While many BME voluntary organisations work in more than one sub-sector, they are requested by CEMVO to specify their primary area of activity only. As Table 87 shows, organisations undertake work in a wide range of activities, with the most significant being faith (17%), community development (8.6%), and education (4.6%). While the BME voluntary sector shares some significant activities with general charities (such as education and social welfare) there are also differences. The importance of community development for example indicates activities that have typically been at the edges of the general charities definition.

Table 87: BME organisations by primary activity (%)

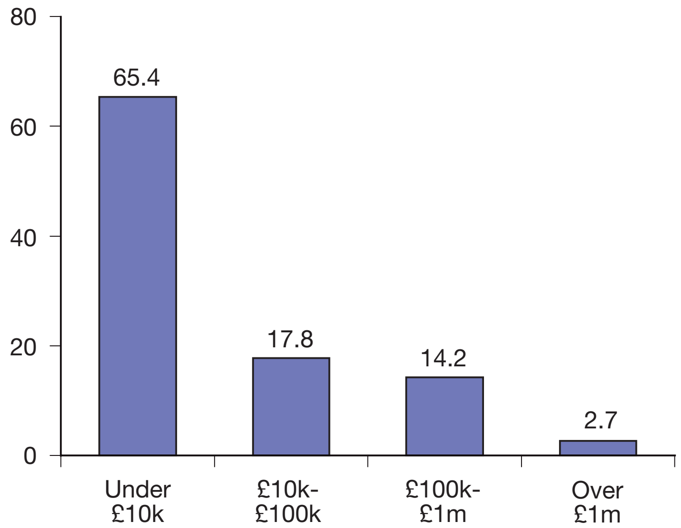
Activity	%
Faith	17.0
Community Development	8.6
Education	4.6
Arts	3.9
Health	3.9
Social Welfare	3.6
Community Care	3.0
Older People	2.4
Immigration	2.1
Employment & Training	1.7
Housing	1.5
Legal Advice & Advocacy	1.4
Children & Young people	1.3
Advice and Information	1.3
Youth	1.2
Sport	0.5
Women’s Issues	0.5
Race	0.3
Refugee/Asylum Seekers	0.2
Disability	0.2
Other	41.0
Total	**100.0**

Source: CEMVO

14.3.3 Income distribution

It was shown in Chapter 4 that the UK voluntary sector economy is heavily skewed, with a very small number of agencies accounting for the vast majority of financial resources. It is difficult to ascertain whether or not the same holds true for the BME voluntary sector, since there are only financial data for 1,800 organisations. Figure 52 should be viewed with this in mind.

Figure 52: Distribution of BME organisations by income band (%)



Four income bands have been developed, based on the 1,800 organisations with annual income data. Two-thirds of these organisations (65.4%) have an annual income up to £10,000, a distribution similar to that of general charities.

14.4 Challenges and opportunities

As the previous sections indicate, BME organisations face serious challenges if they are to raise their profile and meet the needs of their diverse communities. Four overriding concerns can be identified: achieving sustainability; creating effective leadership and governance; access to ICT; and building local capacity. Each of these challenges is considered below.

14.4.1 Sustainability

Lack of sustainability is presently a major concern for cash-strapped BME organisations, which see their long-term viability and financial stability threatened. BME voluntary organisations have traditionally experienced great difficulties in attracting funds. They have also seen their efforts to generate social investment and growth hampered by racial prejudice as well as the absence of appropriate structural support at the grassroots level (Jay, 1992; Suzin, 1996; Kenny, 1997; Dhalech, 1999).

> *'If a viable social agenda is to be delivered, the provision of long-term investment into the voluntary and community sector must become a reality. The question still remains: where will the money come from?'* (Krishna Sarda, CEO, CEMVO, 2003)

Evidence suggests that BME charities are finding it increasingly difficult to secure long-term core funding. Numerous studies have revealed that the comparatively low levels of funding have rendered the BME sector extremely vulnerable, a position made worse by the short-term nature of existing funding regimes (McLeod *et al*, 2001; GLE, 2002). A tendency to overtly rely on short-term funding has increased transaction costs (time, effort and resources) for the sector at the expense of core activities. For some, this has led to mission drift and even closure. The increasing concentration of resources amongst the largest voluntary organisations (Chapter 6) has not benefited the BME sector.

Long-term strategic investment in the BME sector is needed, both in terms of resources and capacity. Such investment will ensure that communities can help themselves to gain the necessary skills, knowledge and resources to adequately meet local needs (Sattar, 1999).

14.4.2 Leadership and governance

BME community leaders in Britain have faced the difficult task of settling down in a new country and thus having to build a new socio-economic institutions and networks (Taylor and Hoyle, 2003). Although such institutions have provided a fertile ground for the emergence of a BME leadership-base, this has failed to materialise. As a result, the quality of local political leadership has been poor and fragmented. BME leaders have been unable to engage meaningfully with government to improve service provision for their communities.

> *'Leaders often serve as symbols of the moral fibre of a given society, articulating values that bring together opposing factions in pursuit of the greater common good. In order for a country's leaders to rise to levels of authority, however, leadership structures that nurture and develop their talent must be in place. In Britain, the dominant indigenous population has long established such structures right across the board. This has not been the case for the country's immigrant BME communities'.* (Krishna Sarda, CEO, CEMVO, 2003)

The current policy framework puts particular emphasis on community involvement and the building of cohesive communities through the full and active participation of its members. Although many of the barriers to ethnic minority involvement are now officially recognised, ethnic minority communities continue to be under-represented in a variety of national, regional and local fora as well as statutory bodies. Whilst ethnic minority communities are over-represented in areas that are subject to urban renewal and participatory strategies, they are *'too often treated as if their interests are homogeneous and are rarely resourced in a way that can give voice to their many different members'* (Craig *et al*, 2002: 135*).*

There is therefore a clear need to nurture effective BME leadership and encourage more diverse governance structures within the sector. If BME communities are to fully participate in a rapidly changing world, they must be guided by leaders who are committed and able to advance their community's interests.

14.4.3 Capacity building

The combination of under-investment, lack of resources, frail leadership as well as fragmented networks has prevented the BME sector from adequately building the infrastructure capacity of its many communities. This situation has been accentuated by an increase in the demand for services: the extra pressure faced by small voluntary organisations in particular often hinders rather than enhances their development (McCarthy *et al*, 2003). As new unmet needs arise, while the government continues to make more demands on voluntary and community organisations, their ability to deliver additional services at an operational level has come into question.

Within this context, 'capacity building' refers to the development of systems, structures and people's skills that would allow BME voluntary organisations to compete on a par level with their mainstream counterparts. Capacity building aims to enable the BME sector engage more fully in the delivery of programmes and services, as well as in decision and policy-making processes. The scope of the capacity building process is not solely limited to the voluntary sector. On the contrary, it encompasses funding statutory agencies, corporate decision-makers as well as political leaders, all of whom must build capacity in order to address the needs of BME communities.

14.4.4 Access to ICT and financial literacy

Just as the sustainability, leadership and capacity building needs of BME communities have been largely overlooked, so has been their lack of access both to ICT as well as financial literacy.

A number of socio-economic, cultural and linguistic barriers prevent BME individuals from accessing traditional forms of ICT learning, otherwise available to the wider British population (DfES, 2003). There has accordingly been a widening in the so-called 'digital divide' between marginalised communities and the majority of British citizens. Factors adversely affecting BME groups and thus contributing to such growing technological gap include: access problems (i.e. centres, facilities and equipment); lack of appropriate skilled staff; unattractive or unsuitable content of courses or programmes; poor promotion; cost; lack of joined-up approach; and fragmented funding (DfES, 2003).

In addition to not having equal access to technology, financial exclusion (characterised by access to even the most basic financial products, such as a current account) is a particularly acute problem among BME groups. For example, Pakistanis are four times more likely to be without a bank account than white members of the UK population (JRF, 1999). Barriers include language, religious beliefs and lack of knowledge.

There is an urgent need for supporting the development of localised financial service provision as a means to increase access to ICT as well as financial literacy for BME groups. In addressing the needs of BME communities, however, it is vital to take a strategic approach that aims to be both coherent and flexible. It is also necessary to secure long-term funding, for the current short-term basis on which most community-based ICT programmes are run seriously threatens their future sustainability (DfES, 2002).

14.5 Future trends: infrastructure needs of the BME voluntary sector

> *'As the twenty-first century dawns, the transformation of Britain into a multicultural and multi-ethnic nation requires of the country's voluntary sector to operate within a complex and rapidly changing environment. In today's world, current problems call for innovative solutions, which only sustainable organisations with flexible structures and effective operating systems can deliver. If BME and mainstream bodies are to thrive under these conditions, they will have to transform themselves into modern enterprises; for neither of them, in their present form, is equipped to adequately deal with the service demands of a contemporary British society. This process of renovation will involve voluntary organisations taking a fresh approach to their institutionalised cultures and working practices, as well as re-thinking their networking and funding strategies. Most significantly, these community-based agencies will have to do so without losing their social focus'.* (Krishna Sarda, CEO, CEMVO, 2003)

BME voluntary organisations face an important challenge: they must be able to function within an increasingly competitive environment, whilst at the same time continue to perform their original mission and objectives. As the role of the BME sector changes a number of issues will need to addressed, including:

- **voice:** representing and articulating the needs of their constituencies to government, funders and other parties through lobbying, campaigning, policy development and advocacy;
- **development:** building the capacity of the sector to operate more effectively, by providing direct support, training and facilitating stakeholders to work together. Developing partnerships and joint working to grow and expand existing provision;
- **advice and support:** providing information and advice in areas relevant to the sector, as well as promoting and disseminating good practice;
- **interface:** facilitating government agencies, statutory bodies and funders access to the sector and vice versa;
- **co-ordination and networking:** engaging in co-ordinating activities for organisations and other agencies as well as providing networking opportunities for them. Helping to facilitate both vertical and horizontal networking and information flows; and
- **enterprise for communities:** promoting sustainability and business growth within communities by attracting venture capital and generating social investment.

These functions are underlined by a number of basic principles of good practice considered essential to the way in which voluntary networking organisations operate. According to these tenets, BME networking infrastructures should:

- be independent, owned and accountable to the sector;
- allow for local diversity within a framework of broad principles;
- address the development needs of the sector as a whole, while promoting trust and respect between individual voluntary bodies;
- provide high quality services, advice and information responsive to the needs of users; and
- be funded on a sustainable basis.

Since traditional mainstream provision has failed to deliver on the needs of BME communities, modern BME voluntary networking organisations will have a particularly important role to play, if the ideal of a diverse and all-inclusive British society is to be realised. In order to achieve these goals, alternative modes of thought are called for.

14.5.1 The cluster model: lessons from the private sector

One innovative way of addressing the challenges facing the BME sector comes in the shape of the so-called 'cluster model'. Derived from the business sector, it is based on the idea that business development is encouraged when organisations gather together to create a critical mass of growth, collaboration, competition and opportunities for investment.

Porter, who in the 1990s coined the notion of 'industrial clusters', has defined them as: *'geographical concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries and associated institutions (for example, universities, standards agencies and trade associations) in particular fields that compete but also co-operate'* (Porter, 1998:197). There are three main ways in which clusters may be conducive to growth: firstly, they raise productivity by allowing access to specialised institutions, employees and public goods as well as information; secondly, they increase firms' capacity for innovation by accelerating the diffusion of technological knowledge and innovation; and thirdly, they stimulate higher rates of new business formation as employees become entrepreneurs in spin-off ventures. (Miller, 2001, vol. 3:1-4).

Within clusters, spillovers of knowledge, cross-fertilisation of ideas and 'collective learning' have been identified as playing a particularly crucial role in promoting innovation and entrepreneurial dynamism (Miller, 2001, vol. 3:3).

The characteristics and geography of the BME sector make it particularly suitable for developing cluster-like centres. The third sector's fragmented structures and local networks are indeed conducive to the creation of information flows, exchange of ideas, sharing of resources as well as generation of venture capital and business growth. One of the main advantages of the cluster model is its long-term approach to developing communities and resourcing them in a manner that does not create grant dependency. This is highly relevant to small BME community-based organisations, most of which struggle to become sustainable. By providing value for money through economies of scale, cluster-based voluntary networking bodies would be well placed to address the multiple problems facing the BME voluntary sector. They could be furthermore beneficial to BME organisations across the board; for whatever the size and scope of these local ventures, they all ultimately have the potential to become sustainable and thriving enterprises.

With funding from the Ethnic Minority Foundation, a pilot initiative to apply the cluster model has been undertaken by CEMVO. Premises in Stratford provide rent-free accommodation for a number of BME organisations, as well as access to resources and business services including:

- connection to networked ICT facilities
- HR, financial and legal services
- access to conference facilities
- discounts on common purchasing of stationery and other materials.

The pooling of resources enables the delivery of services that are essential for the smooth functioning of any enterprise. Other examples of voluntary sector-led clusters are starting to emerge, and CEMVO is looking to recreate this model elsewhere.

Against this background, it is reasonable to assume that the cluster model could be successfully applied to the voluntary sector at large to tackle some of the main intractable social problems facing BME organisations. Centres formed with the pooled resources of several charities could provide access to a multiplicity of functions such as legal advice, marketing, finance and HR. Collaboration among organisations could be found in shared office space, equipment and administrative support with the costs split between the charities involved. Organisations could consequently improve their overall productivity while enhancing their prospects of long-term sustainability. On the whole, the cluster model can be said to provide a viable alternative for meeting the complex demands now facing the voluntary sector in Britain.

14.6 Conclusion

This chapter has outlined the many challenges faced by the BME community in the UK today, whilst presenting models for future collaboration and joint working that may address some of the acute capacity problems faced by the sector. Solutions are, however, hampered by an absence of data on the size and scope of the sector. A key challenge for the Almanac research programme will be the full disaggregation of data for the BME sector.

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15. Outcomes and impact

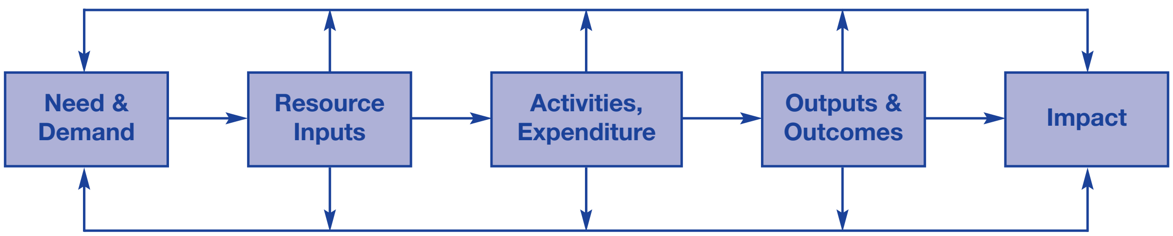
Highlights

- The voluntary sector contributes £7.2bn to the UK's GDP.
- Estimates based upon the Home Office Citizenship Survey suggest that formal volunteering for clubs, groups and societies across the UK may be worth an additional £25.3 billion.

15.1 Introduction

The Almanac is based on a conceptual model of the voluntary sector economy where *inputs* (staff, assets and money) provide the means to carry out *processes* or *activities*, which result in *outputs*, which in turn result in *outcomes* and *impacts*. This is illustrated below.

Figure 53: Measurement points in the resource cycle



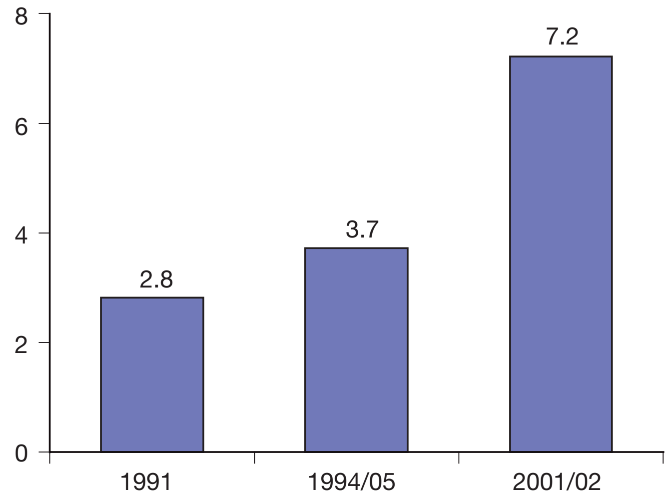
Chapters 6, 7, 8, 9, 10, 11 and 13 looked at the value of the voluntary sector by focusing on its major *inputs* – income, staff, volunteers and assets. Chapter 12 discussed estimates of the sector's expenditure, much of which is on its *activities* or *processes* which result in *outputs*.

We can also talk about the sector's value in terms of its financial contribution to the economy, or its contribution to GDP. Using a variation of ONS' calculation of the sector's contribution to GDP, we can provide a demonstration of the sector's financial output which takes into account its expenditure on goods and services as well as grants and donations made to other organisations.

Figure 54: Method for calculating the sector's contribution to GDP

total current expenditure
minus
expenditure on goods and services
minus
expenditure on grants and donations
equals
estimate of sector's contribution to GDP

Figure 55: The voluntary sector's contribution to GDP (£billion)



Source: NCVO

It is correctly argued that this does not and cannot take account of the broader contribution of the voluntary sector to the UK economy. For example, it does not include the value of volunteer input. We can however address this by using estimates derived from the Home Office Citizenship Survey. This suggests that formal volunteering for clubs, groups and societies across the UK may be worth an additional £25.3 billion.

These estimates of the sector's contribution to GDP tells us something about its worth in financial terms. It tells us nothing however, about how well organisations have met their *objectives*, what *outcomes* they have achieved, and what *impact* they have had. In short, we have been talking so far about financial measures of the sector's value, but organisations are becoming increasingly keen to measure their outcomes and impact in broader, often less tangible terms. We now find ourselves in significantly more difficult territory.

The challenge of managing performance
Mike Hudson, Director of management consultancy at Compass Partnership

One of the greatest challenges facing voluntary organisations today is measuring their achievements and using this information to make better decisions about future services and campaigns. There is growing demand for greater transparency, clearer accountability and better reporting of real accomplishments. But it is extraordinarily difficult to capture a meaningful understanding of performance when services have very nebulous boundaries, quality is paramount and outcomes depend on the intractability of the presenting problem. How productive was the counselling session? Did that research contribute to finding a cure for the disease? Did the campaign reduce the abuse of human rights?

Despite the huge challenges, leading-edge organisations are grappling with the issue and finding ways to pinpoint what good performance means and to use the information in taking those crucial decisions about how funds should be spent. Some organisations are adapting the 'Balanced Scorecard' approach from the corporate sector, to present trustees with an overview of organisation performance including outcomes achieved, fundraising results, organisation health and financial results. In the USA organisations talk about their 'Corporate Dashboard', a summary of key indicators which tell trustees, managers, staff and branches how the organisation is performing.

Other organisations are moving away from traditional annual reports and publishing reports that set out the organisation's mission, its plans and its achievements over the preceding year. The Royal National Institute for Deaf People has led the way with its trailblazing impact reports. Leading-edge organisations are striving to use this information to inform decisions so that the results achieved from past expenditure feed into decisions about future investments.

The key point is that donors and other stakeholders increasingly expect much higher standards of reporting and performance management from voluntary organisations. Those organisations that rise to the challenge will undoubtedly be rewarded with higher public profiles and greater fundraising success.

15.2 Measuring outcomes and impact

In previous chapters, the estimates of income, staff, assets and expenditure have been from the point of view of the whole voluntary sector. However, once we enter the territory of measuring outcomes and impact, it becomes a much more organisation-specific affair. Tools for measuring outcomes or impact tend to involve setting objectives and measuring achievements against them, thus making them more suited to individual organisations.

Attempts have been made, however, to assess the sector's impact at a much broader level. The Comparative Non-Profit Sector Project funded by Johns Hopkins University in the United States asks whether the presence or absence of voluntary organisations makes a difference, and if so, what kind and how much? It identifies the main roles as well as drawbacks of voluntary organisations. It then looks at the extent to which a wide range of voluntary organisations in 40 countries display these characteristics.

But most organisations' requirements are much less ambitious than this. They want a relatively simple approach, to enable them to assess what they have achieved, usually against a set of objectives or targets. They want to be able to be accountable to funders, partner organisations, donors, beneficiaries and other stakeholders. And they want to be able to assess the impact that they have in order to aid planning and to motivate staff.

No single toolkit claims to be able to measure every aspect of an organisation's impact. Instead what we find is a broad range of tools tailored to different types or sizes of organisation, and different aspects of impact. Choosing between the broad range of approaches can be seem fairly daunting (see *Measuring impact – a guide to resources* for a fuller discussion of the range of tools). However, by deciding *why* they want to measure their outcomes or impact, an organisation can then begin to think about *what* they want to measure, which will help them to select an appropriate tool or approach to help them do this.

15.2.1 Barriers to impact measurement

NCVO has recently completed a programme of research looking at ways of measuring impact in voluntary organisations, and the realities of the process of measuring impact for organisations with limited time and resources. Our research highlighted a number of barriers and difficulties associated with measurement:

Attributing cause. Identifying a causal relationship between an activity and a possible outcome can be problematic. The activity being assessed is likely to be only one of a number of factors impacting on the beneficiary during the time period in question, so determining how much of a particular effect can be attributed to a particular activity is very difficult. The problem deepens when you try to measure impact over an extended period of time, as even more factors will come into play, and ascertaining exactly how much of the impact can be attributed to the original activity is likely to be impossible.

Unanticipated impact. Most tools for measuring voluntary organisations' impact require the collection of baseline data before the activity or intervention is carried out. The idea is that you can then use the data for comparison after the event. The problem here is that you need to know what types of outcomes you want to measure in advance. While this is a common way of demonstrating the impact of an activity, it is somewhat restrictive as it limits the measurement process to outcomes that were anticipated beforehand, and makes it unlikely that any unanticipated impacts will be captured in the process.

Prevention activities. Organisations whose main aim is to prevent something from happening (like drug use or teenage pregnancies) find it particularly difficult to measure the success of their activities. This is particularly true when they have a large target audience (all teenagers, for example) and no direct contact or interaction with them, as it means that identifying the people who have been impacted upon will be very difficult.

Cost. The financial burden of any activity can be a worry for organisations, and measuring impact is no exception. Even a simple approach with no obvious costs will still involve some staff time and management buy-in. However, with this in mind, some approaches have been developed particularly for small organisations with limited resources (see *Measuring impact – a guide to resources*).

But it's not all doom and gloom – a changing culture around impact measurement in general means that organisations are finding ways of incorporating some type of impact measurement into their daily routine. Tools tailored to specific sizes of organisation and types of activity are emerging; people are sharing experiences and learning from each other; and funders are becoming more realistic about the degree and type of measurement that they can expect from the organisations they fund.

Developing a new mindset
Richard Gutch, Director for England and Strategic Programmes, Community Fund

The increasing focus on the outcomes of voluntary action is a development which makes sense for voluntary organisations and funders alike. Too often in the past, regimes have been imposed which are designed to suit the needs of one party in the relationship, but result in heavy transaction costs and loss of independence for the other. The contract culture and its accompanying compliance mechanisms are one example. Centrally imposed targets with excessively rigid accountability requirements are another.

The outcomes approach on the other hand makes sense all round. Any voluntary organisation should be clear about the difference it is trying to make and should develop ways of telling whether it is making that difference. Any funder similarly should be clear about the difference its funds are making. In both cases, a new mindset is needed – one that thinks beyond project activity to project outcomes and one that thinks beyond types of organisations funded to types of outcomes supported.

Funders will vary as to how far they wish to prescribe and specify the types of outcomes they want to support. Some, like the Community Fund, will only want to prescribe very high level outcomes, leaving applicants to specify in detail the particular outcomes they wish to deliver. Others, such as statutory service commissioners, will want to prescribe the outcomes they are seeking more tightly. But, in both cases, the funder should resist the temptation to prescribe *how* the outcomes should be delivered.

Pursuing an outcomes approach involves a number of challenges. Some, more qualitative, outcomes can be hard to define and even harder to track, while outcomes that are based on preventing things happening can be particularly difficult to measure on an individual project basis. The timetable for delivery and, especially, for monitoring and evaluating delivery of outcomes will often be longer than traditional three-year grants. Furthermore, sharing learning about which types of approach to delivering particular outcomes work best very rarely takes place.

All these challenges can be overcome – provided we have the right mindset in the first place.

15.3 Conclusion

There is no doubt that impact measurement in one form or another has found a place in the voluntary sector, and this sits well alongside the sector's culture of service provision, performance improvement and accountability. But we need some realism. Organisations cannot measure everything, and it is important for them to think carefully about their reasons for wanting to measure impact, in order to choose the approach that best suits their needs.

Funders too, have a responsibility not to expect inappropriate measurement from the organisations they fund. Funders hold a great deal of power in this area, and many organisations find themselves adopting approaches that are woefully inappropriate for their size, function or needs, in order to meet a funder's criteria.

Finally, once we move away from the 'harder' more countable inputs, activities and outputs, we enter into a world where describing, demonstrating and identifying impact become more important – and more feasible – than measuring. Measuring and counting certainly have a place, but not all impacts can be captured in this way, and a shift in culture that recognises this can be no bad thing.

15.4 Resources and further reading

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16. Preparing for the future

16.1 Introduction

NCVO, NICVA, SCVO and WCVA are firmly committed to monitoring evidence of change and continuity in the UK voluntary sector. Since the publication of the first benchmark survey of charities, we have striven to provide robust, consistent evidence for those wishing to understand the scope and contribution of the sector. Our preparations for the future reflect these values. This final chapter highlights some of the challenges facing the voluntary sector, and the tasks that might underpin a future research programme.

16.2 The context for future research

The sector is being driven forward by the changes in the operating environment highlighted in Chapter 4. These are both short and long-term, and to reiterate, these are mainly:

- government policies towards the sector. The implementation of a Charities Bill, a continued emphasis on social enterprise, and policies to build active, cohesive communities will change the scale and scope of the sector;
- the public services agenda. An ageing, more ethnically diverse, and generally wealthier population has different welfare needs to that of previous generations. Government policies are already rising to this challenge, and the post-Spending Review 2002 landscape aims to build the capacity of the voluntary sector to deliver more services; and
- the economic context: the ending or decline or of some income streams (SRB funds; EU structural funds; National Lottery funds; final withdrawal of ACT credits) will hit parts of the sector hard. Rising public and government borrowing may act as a brake on key income streams, while any fall in the housing market will impact on legacies. More bullish equity markets will help to repair the sector's balance sheet.

Our preparations for the future will need to take account of these drivers for the sector, whilst our *Third Sector Foresight* programme will continue to search for future trends. However, our more immediate concern is to build upon the benchmark for 2001/02.

16.3 Updating the 2001/02 estimates

Trend data over the long term are an invaluable resource for strategic analysis and policy development. The development of an accurate, cost-effective method to update the main estimates published in the Almanac will form the core of our research programme.

We do not intend to continue using our previous method of rolling forward ratios produced from benchmark surveys. Whilst this is generally reliable and inexpensive method of producing estimates, the scale of change in and around the sector necessitates more detailed investigation. Moreover, our estimates for 2000/01 and 2001/02 provide the basis for a long-term tracking analysis of the same organisations – a panel survey of over 3,300 general charities.

An undertaking of this scale on an annual, or even bi-annual, basis is currently not feasible. Cost and access to accounts are two significant barriers, although the absence of any time to reflect would curtail the value of annual estimates.

However, the generation of future estimates will benefit from a number of developments that will make regular, original benchmarks feasible. The development of online information sources such as Companies House have already facilitated our work, and the development of GuideStar UK in particular will facilitate wider and faster access to charities' annual reports. GuideStar UK will also extract financial data from the annual reports of the largest charities, which will enable us to concentrate our resources on analysis and widening our gaze beyond general charities. Current initiatives to encourage better quality annual reports will also facilitate analysis. Finally, the investments in methodology and databases made by many organisations involved in the current research programme will be useful beyond the life of the current benchmark.

NCVO, NICVA, SCVO and WCVA are also keen to harmonise the data collection and analysis cycles across the UK, so as to improve the quality of the final estimates. This in itself is a significant but achievable challenge.

16.4 Problems and issues highlighted by the Almanac research programme

The Almanac research programme has identified a number of issues that have yet to be resolved. These include:

- fully harmonising approaches to data collection between the four nations of the UK;
- understanding the impact of different accounting approaches on the income, expenditure and asset holdings of small charities;
- disaggregation of statutory funding of the sector by geography and activity, so as to enable a better understanding of this complex set of relationships;
- a more accurate assessment of the role and contribution of charities' trading subsidiaries;
- clearer identification and understanding of loan finance in the sector;
- production of estimates for gifts in kind, particularly in relation to the private sector;
- reconciling source and recipient-based estimates of individual giving;
- reconciling employer and employee-based estimates of the voluntary sector workforce, particularly in UK nations where sample sizes are relatively low; and
- identification and distinction of the BME sector within our main estimates.

Planned revisions to the charities SORP are likely to create further problems for the analysis of long-term trends, but it is recognised that these are necessary and therefore unavoidable. However, this will lead to more changes in the presentation of financial data in the next Almanac.

We have also failed to achieve some of the ambitions laid out in the last edition, in particular the move towards a *Non-Profit Almanac* that would describe a much broader group of entities beyond general charities. Although we have funded detailed scoping work on the broader sector (Hems, 2002) and outlined a methodology to do this work, the need to completely revise the core estimates has taken over. Estimates for the broader non-profit sector are still a key goal for our work.

This is a substantial to-do list. Inevitably, it is aspirational. Our priorities for 2004/05 (in preparation for the 2006 Almanac) are:

- production of estimates for the financial year ending March 2004. Tracking the core panel established for the current Almanac will provide evidence of change;
- with CAF and ONS, revision of the individual giving survey;
- UK involvement in round three of the Civil Society Index, an international project to assess the state of civil society in over 40 countries;
- establishment of panel surveys of voluntary sector employers and employees. These would track changes in the sector's role as employer and employee attitudes to (and experience of) working in the voluntary sector; and
- building an evidence base in relation to the sector's contribution to the delivery of public services.

16.5 Conclusion

We have learned much about the UK voluntary sector and voluntary action in recent years. Despite these advances, much remains to be done. Building on the existing evidence base, rather than reinventing the wheel, must underpin our preparations for the future.

Achieving the research goals outlined above and in many of the preceding chapters is not simply a case of asking for more resources or doing more research, the standard conclusion to many a research project. There is undoubtedly a strong case for further investment in research on the sector and voluntary organisations' capacity to undertake research themselves. It remains difficult to secure funding for research proposals that look at the sector as a whole, and the Economic and Social Research Council's proposed investment in this area is particularly welcome.

But more can also be done with what we already have and do. It is still the case that more co-ordination of effort, harmonisation of definitions and approaches, and integration of voluntary sector questions into existing surveys will contribute significantly to the scope and level of voluntary sector research. There are examples of good practice: the recent development of an academic network of voluntary sector researchers (the Voluntary Sector Studies Network) is particularly welcome. But these are isolated examples, and across a number of key areas the evidence base remains fragmented. We hope that the Almanac will provide a stimulus to further collaboration and work.

Finally, we recognise that some of the issues and analysis contained within the Almanac are incomplete. Some problems, such as the changing organisational landscape, are of such a scale and complexity that it is only through the lens of hindsight that we will fully understand them. Others (regional and sub-sectoral estimates) have simply been sidelined, so as to enable us to produce the core estimates in time for our publication deadline of February 2004. We aim to pick these issues up again in 2004, and we welcome the ideas and comments of others interested in post-publication analysis and research.

16.6 Resources and further reading

Arnova – The Association for Research on Nonprofit Organizations and Voluntary Action. A north American-based association that includes many UK-based participants. See www.arnova.org/

Hems, L. (2002) The organisational and institutional landscape of the UK wider nonprofit sector. London: Cabinet Office Strategy Unit.
www.pm.gov.uk/files/pdf/volorginst.pdf

ISTR – The International Society for Third-Sector Research. An international association promoting research and education in the fields of philanthropy, civil society and the nonprofit sector. www.jhu.edu/~istr/

VSSN – The Voluntary Sector Studies Network – a discussion list for those interested in academic style research on the sector. Archives of the list discussion are available at www.jiscmail.ac.uk/lists/vol-sector-studies-network.html

Regard – the ESRC's online database of social science research. www.regard.ac.uk/

Appendix 1: Methodology

A1.1 Introduction

The Almanac is based upon data from a number of different sources, predominantly charities' annual reports (and/or statutory accounts), surveys of individuals (giving; citizenship, and workforce) and registers held by infrastructure bodies and statutory agencies. Pulling together these different sources for the UK is of itself a challenge; reconciling estimates from the different sources presents further difficulties. This is of course a reflection of the different methods used by the different sources.

The methodological framework for the production of the Almanac takes into account:

- the need to demonstrate economic value and diversity;
- the limited capacity of voluntary and community organisations to respond/take part in information gathering exercises;
- the availability of existing data sources; and
- the requirement to produce robust and reliable estimates.

These points inform the research design, including definitions of the sector and sampling methodology. This chapter provides a brief overview of the methodology used by our core benchmark survey of general charities, undertaken in 2003. A longer version of this chapter is available from www.ncvo-vol.org.uk/almanac

A1.2 The 2001/02 NCVO benchmark survey of general charities

Recent editions of the Almanac have estimated the sector's total income, expenditure, assets and liabilities without recourse to a large-scale benchmark survey. A method to roll-forward ratios derived from the 1994/95 survey was cost-effective and sufficiently reliable. This approach depended upon a range of sources, including information on income and expenditure from the register of charities, charities' annual reports, and data from the CaritasData Top 3000 Charities database.

In contrast, the main estimates in the Almanac have been generated from a survey of over 3,300 English-based charities' annual reports. There is still some confusion in the sector over what is meant by an annual report (Fitzherbert and Becher, 2002). By annual reports, we mean the statutory financial accounts and trustees' narrative contained within the annual report. Similar ongoing surveys in Northern Ireland, Scotland and Wales have been used to complement the dataset, thereby building estimates that reflect the devolved United Kingdom.

A1.3 Why a new benchmark survey?

The move to a new benchmark survey is a reflection of the need to take into account:

- changes in the way charities account for their financial activities. In particular, the gradual implementation of accounting changes in the Statement of Recommended Practice (SORP);

- the changing organisational landscape; and
- the need to produce regional and national estimates that are comparable with UK figures.

Changes in the way charities account for their financial activities

The revisions to the charities' SORP over the last five years have made it no longer possible to record total current income (i.e. income excluding one-off grants for capital expenditure and endowments). The SORP now requires charities to record 'total incoming resources'. Previously charities only recorded income that would fund activities in the current year.

These changes mean that large, one-off incoming donations, grants or legacies are no longer transferred directly onto the balance sheet, but instead must be included in the Statement of Financial Activity (SOFA). The implication of these changes for the Almanac is that:

- income is more volatile on a year to year basis;
- total income reported is higher; and
- comparison with previous years is no longer possible.

In addition to the move to reporting total income, we have made two important methodological changes in the way total income is reported. These are:

- **no longer including realised gains and losses from investments in total income.** This was done because it was not possible to extract from the accounts the proportion of gains/losses that had been liquidated to fund current activity. Furthermore, in the climate of a weak stock market, it would also have led to reporting that some large organisations had negative income, as their realised losses were so large.
- **reporting the gross income of trading subsidiaries.** In the 2004 Almanac this adds £870 million to total income. By ignoring this revenue a sizeable chunk of economic activity controlled by the sector would have gone unreported. It is also the case that the SOFA reports gross income, so our estimate of income/movement in funds will be closer to the bottom line reported by charities.

Changes in the sector

In addition to methodological changes, the new benchmark takes into account some fundamental changes in the sector. Whilst previous estimates have done this, a number of revisions mean that a more accurate change has been portrayed. These revisions are:

- a complete revision of whether organisations with incomes over £1 million meet the 'general charities' definition: the first complete revision since 1994/95; and
- estimates that better reflect changes in the UK nations and regions. These include adoption of a regional stratification to sampling and better incorporation of data from Scotland, Wales and Northern Ireland.

The 2004 Almanac also benefited from a much more accurate register of charities for England and Wales, and better database information held by NICVA and SCVO. As a result, the number of general charities has been revised upwards to 152,696. The changes in the sector that have been reflected more accurately are:

- **an influx of 'new entrants':** There are three main types of new entrants. First, genuinely new foundations of substantial size, such as The Foyle Foundation. Second, the continued emergence of ex-local authority departments that have been floated off as independent charities, albeit ones dependent upon a small number of large local government contracts. These are not limited to social care (e.g. Manchester Care), and include activities such as the management of recreational facilities (e.g. Sheffield City Trust);
- **existing charities taking on more responsibilities:** There was a substantial growth in the average income of those organisations with incomes over £1 million, this is partly driven by government income (grants/contracts/service level agreements);
- **reapplication of the general charities definition:** A number of charities, which were excluded from previous analysis on the basis that they failed the general charities definition, have been included because the nature or control of their activities has changed. There are also a substantial number of registered charities that previously would have been considered part of the apparatus of government but are now considered 'independent' from government and therefore bona fide general charities (e.g. the education awarding charities); and
- **Registered Social Landlords (RSLs):** Charitable RSLs were systematically de-registered by the CC in the early 1990s (regulation by the Housing Corporation was assumed to exempt them from registration). However, RSLs with charitable objects can now re-register with the CC. These have largely been excluded by the general charities definition because they are still regulated by the Housing Corporation.

  There are exceptions. Many RSLs have also created substantial 'group structures' to undertake a wide range of activities beyond social housing – some of these group entities are valid general charities e.g. trusts, community regeneration and other community-based organisations. These activities, where undertaken by 'associates' in the group structure, are included as general charities.

A1.4 Survey procedures

Sampling

To ensure that a representative sample of the regions was used, a regional income matrix was constructed to facilitate the sampling process (Table 88). The organisation's last recorded income on the register was used as a basis to determine which income band it was recorded under. Regions were allocated using the ONS All Postcodes file and the correspondence address on the register of charities.

The sample was created by selecting organisations at random using a pre-determined fraction per region and income, e.g. 0.5% for those organisations with an income below £10,000, and a census for those organisations with an income above £10 million (Table 89).

Table 88: Sample matrix for England by size of organisation, 2001/02

English Region	Under £10k	£10k-£100k	£100k-£1m	£1m-£10m	Over £10m	All
East	47	56	72	109	7	**291**
East Midlands	53	48	74	59	6	**240**
London	34	82	114	593	131	**954**
North East	35	47	75	49	1	**207**
North West	43	57	79	146	11	**336**
South East	48	57	79	214	30	**428**
South West	40	53	74	117	14	**298**
West Midlands	49	83	76	116	9	**333**
Yorks & Humber	47	45	75	93	7	**267**
Total	**396**	**528**	**718**	**1,496**	**216**	**3,354**

Table 89: English general charities sample achieved and actual population by size of organisation, 2001/02

Size of organisation	Achieved sample	Population	Sample size (%)	Total income for sample (£million)	Total income for population (£million)
Under £10k	396	71,324	0.6	1.3	**225.3**
£10k-£100k	528	32,547	1.6	18.8	**1,160.2**
£100k-£1m	718	11,968	6.0	230.2	**3,836.9**
£1m-£10m	1,496	1,791	83.5	4,189.1	**5,018.5**
Over £10m	216	216	100.0	7,589.2	**7,589.2**
Total	**3,354**	**117,846**	**2.8**	**12,028.6**	**17,830.1**

These tables do not take into account the sampling procedures for data from Scotland, Wales and Northern Ireland. These are detailed in separate publications from SCVO, WCVA and NICVA.

Data collection and analysis

The use of organisations' annual reports allowed for a complete survey to be carried out, resulting in the creation of a comprehensive database of the sectors' financial data. Annual reports for the latest financial year – predominantly 2001/02 – were secured from a range of sources:

- directly from the organisation itself
- Companies House
- the Charity Commission for England and Wales.

The median year-end for 2001/02 was March 2002. December 2001 was the other main year-end of the accounts in the dataset.

Detailed analysis of the annual reports was undertaken by the authors of the UK Voluntary Sector Almanac 2004 and professional voluntary sector accountants at London South Bank University. Financial data from the SOFA, balance sheet and accompanying notes were entered or translated into agreed categories. This was greatly facilitated by the use of electronic databases that enabled comparison of categories and their totals against paper accounts.

Mistakes invariably occur at the data entry stage, and a two-month period to clean the data enabled us to refine the quality of the data. Routines to clean the data included:

- comparison of income, expenditure, balance sheet data and workforce across two years to look for exceptionally large increases or decreases (both in real terms and as proportions);
- construction of numerous ratios between different financial variables (such as investment holdings and dividend income), and analysis of outliers; and
- consistency checking to highlight any differences in interpretation of accounts data by analyst. Problems of interpreting charity accounts are well known; we have done our best to achieve a level of consistency between the different analysts.

The analysis stage highlighted further outliers, which significantly skewed some variable in the dataset. These were removed for the construction of estimates. Finally, the production of means (or averages) for total income, expenditure, assets and liabilities provided the first stage for producing sector-wide estimates. Means and proportions of the total have been calculated for each income band in the strata. Additional work in 2004 will extend this analysis on a region-by-region basis.

A1.5 Producing sector-wide estimates

As the word *estimates* suggests, the numbers throughout the Almanac are approximations of what we believe to be the real world. No research of this scope or approach can claim 100% accuracy. However, we believe our rigorous approach to definition, sampling, weighting and grossing-up produce the best possible estimates.

The core financial data in the Almanac have been weighted according to the profile of general charities as at the end of 2002. The financial data (excluding staff numbers) extracted from annual reports have all been inflated or deflated by RPI, so that they are all expressed in 2001/02 prices. This means that the impact of inflation is removed when comparing data for different years. More importantly, it means that we have removed the impact of differing year-ends from the analysis.

Finally, the means and proportions from the analysis were 'grossed-up' using the stratified populations, and data for Scotland, Northern Ireland and Wales was added. This means that the overall financial estimates are weighted to reflect the UK voluntary sector.

A1.6 Resources and further reading

Almond, S. and Kendall, J. (2002, forthcoming) *Trends in third sector employment, 1995-2000, Centre for Civil Society Working Paper 22*. London: Centre for Civil Society, London School of Economics and Political Science.

Fitzherbert, L. and Becher, K. (2002) *The major charities: an independent guide*. London: Directory of Social Change.

Hems, L. and Passey, A. (1996) *The UK voluntary sector statistical almanac 1996.* London: NCVO.

NCVO (1995) *Feasibility study on obtaining information on the economic activities of non-charitable, non-profit making bodies.* Report for ONS.

Palmer, P., Isaacs, M. and D'Silva, K. (2001) 'Charity SORP compliance – findings of a research study'*. Management Auditing Journal*, 16/5: 255-262. NCB University Press.

Salamon, L. and Anheier, H. (1997) *Defining the nonprofit sector: a cross-national analysis*. Manchester: Manchester University Press.

Appendix 2: Glossary

The glossary in this section has been compiled from a variety of sources, including the charities' SORP. The list is not definitive, and is intended for guidance only.

Accountability
The ability to account for, be held responsible for, or justify something, like expenditure, activities or performance.

Added value
The additional value or benefit resulting from a service being delivered by a voluntary organisation as opposed to a private sector or public sector organisation. These might include the ability to engage volunteers, to work with communities and to access hard-to-reach groups.

Assets
The cash, investments, goods and property that an organisation holds.

Balance sheet
A summary of the assets and liabilities of an organisation at a particular date, usually at the end of the financial year.

Capacity building
Increasing the ability of individuals, organisations or communities to take action and achieve their objectives.

Capital expenditure
Expenditure during a particular period to acquire fixed assets such as property, vehicles, equipment.

Cash
Comprises cash in hand, bank deposits and cash held for investment.

Charitable foundations and trusts
General charities whose primary purpose is grant-making to other voluntary organisations, other institutions or individuals.

Charities Bill
In July 2003, the Government committed itself to an overhaul of the 400-year-old charity law when the Home Office issued its response to the consultation on the Strategy Unit's report *Private action, public benefit*. A Charities Bill was anounced in the Queen's speech in November 2003.

Citizenship
The relationship between individuals and the community and/or the state. Active citizenship involves active participation by people in their communities and civic life more generally.

Civic engagement
Individual and collective actions designed to address issues of public concern. It can take many forms, from volunteering to electoral participation.

Civil society
All organisations operating in the space between the state and the market. It includes voluntary organisations, community groups, faith-based groups, trade unions, and a range of other organisations and associations outside the private and public sectors.

Community
A specific group of people who have something in common. A community is often defined by geography (community of place) but can also represent a group of people with common interests, culture or concerns (community of interest).

Community development
The development of communal activity to improve quality of life in a particular geographical area.

Community foundation
A fundraising and grant-making charity established to raise new resources for local charities in a specific geographic area (or "community") and to promote the effective use of these resources.

Compact (The)
The agreement between the Government and the whole voluntary and community sector made in 1998 and designed to improve their relationship for mutual advantage.

Contract
A legally binding agreement between two parties that sets out the terms, conditions and rights and responsibilities of both parties.

Core costs
An organisation's overhead or central costs, as opposed to project costs. They include the cost of management and leadership, research, development and innovation, and support functions (e.g. the price of premises and financial and personnel management).

Corporate Social Responsibility
Corporate Social Responsibility is a broad concept covering the range of ways in which companies respond to social and environmental factors, alongside making a profit. CSR includes a company's behaviour in relation to environmental care, employment practice, promotion of human rights, engagement in community partnerships or activities, and corporate giving or other modes of support to the voluntary and community sector.

Cost of generating funds
Comprises fundraising and publicity costs and trading subsidiary costs.

Creditors
People or organisations owed money by an organisation (e.g. loans from local authorities, bank overdrafts and tax and pension contributions).

Cross Cutting Review
Report of the Treasury on the role of the voluntary sector in the delivery of public services published on 10 September 2002.

Current assets
Assets that can be converted into cash within a year (i.e. cash in bank, petty cash, money owed to organisations and goods for sale).

Debtors
People, or organisations, that owe an organisation money (e.g. grants receivable and residents' arrears).

Depreciation
The gradual decrease in the value of assets held. An estimate of depreciation of an organisation's assets appears in their financial accounts.

Donation
A gift (usually of money) to support an organisation or an activity.

Earned income
See fee income.

Employee volunteering
Scheme whereby employees can volunteer with voluntary organisations during paid work hours.

Endowment
A permanently restricted net asset, which is protected and the income from which may be spent and is controlled either by donor restriction or the organisation's governing board.

Excepted charities
Charities that have a small annual turnover and no significant assets. They are 'excepted' from registration – they can choose to register if they wish do so (e.g. Scouts).

Exempt charities
Charities that are not registered and are not subject to the supervisory jurisdiction of the Charity Commission (e.g. universities, leading museums, friendly societies).

Expenditure on management and administration
Costs incurred in the management of the organiation's assets, organisational administration and compliance with statutory requirements (e.g. postage, costs of trustees' meetings or audit fees).

Expenditure on charitable activities
Expenditure directly relating to the objectives of an organisation.

Fee income
Income derived from the sale of goods or services.

Fixed assets
Assets held on a long-term basis. They can be either fixed assets for charitable use (which include real estate and equipment) or investments (including shares and CIFs).

Functional classification of expenditure
The classification of expenditure used in the SORP used to identify the cost of different functions or activities (such as management and administration). This approach apportions costs such as salaries or travel costs to each of the charity's different functions.

Full-time equivalent
An estimate of the number of full-time posts which are equivalent to the hours worked by an organisation's staff.

*future*builders
A one-off £125 million investment fund, over the three years of Spending Review 2002, specifically to assist the voluntary and community sector, providing organisations in their public service work.

Fundraising costs
Fundraising costs relate to any expenditure that induces other parties to make donations or voluntary contributions to the charity. This includes any payments made to professional fundraising intermediaries.

Funds
A “fund” is a pool of unexpended resources, held and maintained as a distinct resource. Broadly speaking, the SORP states that charity funds are either restricted or unrestricted.

Gains and losses
Realised gains and losses arise from the disposal of fixed assets (including investments). Unrealised gains and losses arise from the revaluation of fixed assets (including buildings and investments).

General charity
General charities are defined in National Account terms as ‘private, non-profit-making bodies serving persons’. Organisations must be independent, non-profit distributing, have objectives with a wider public benefit and not be sacramental religious bodies or places of worship.

Gift Aid
A tax relief for cash gifts made to charities by individuals and companies in the UK, whereby charities can claim back from government the income tax or capital gains tax that you paid on the value of the donation. It means that every £1 donated using Gift Aid is worth £1.28 to the charity.

Gifts in kind
A gift of goods and services goods rather than cash.

Giving Campaign (The)
The Giving Campaign is an independent, national campaign supported by the voluntary sector and the Government. It has been established to increase the amount of money given to UK charities, to encourage a culture of giving.

Governance
Governance is the leadership of an organisation by its trustees, who ensure that an organisation is effectively and properly run. It is concerned with guarding the values and purpose of the organisation, setting direction and policy and overseeing management. It is distinct from day-to-day management and operations delegated to staff and volunteers.

Grant
A gift of money to support an organisation or an activity. A grant is different from a donation in that it is usually applied for based on strict criteria drawn up by the grant-maker. A grant is not a contract; there is no legal obligation on the recipient to provide a particular service or product. Where grants are made by a charity, the grant will further the objects of the grant-maker.

GuideStar UK
Based on a similar model as in the US, GuideStar UK has been set up to provide a comprehensive charity sector information system including a free public website service that will supply key information on registered charities (e.g. objectives, activities and financial data).

Impact
Changes resulting from an activity, project or organisation. Includes intended as well as unintended effect, negative as well as positive, and long-term as well as short-term changes.

Infrastructure
The voluntary sector infrastructure includes all those playing a supporting, co-ordinating or development role within the sector. Infrastructure bodies may also be known as umbrella bodies or as "second tier" voluntary organisations – that is, they exist to support the "first tier" organisations whose role is to deliver services or give advice direct to individuals or communities or who campaign and advocate on a specific issue.

Investment income
Income received from investments including dividend payments from stocks and shares, interest payments, rents from property.

Liabilities
Obligations or amounts owed by an organisation at the balance sheet date.

Local Strategic Partnerships
Partnerships bringing together public, private, and voluntary representatives with local people. They have a role to play in developing Community and Neighbourhood Renewal Strategies, designed to improve the quality and joining-up of local services and to reduce health, education, employment and crime inequalities experienced by those in the poorest communities.

Neighbourhood renewal
A form of regeneration that focuses on social regeneration and developing communities, as well as regenerating the physical landscape and economic prospects of an area.

Not-for-profit (or non-profit)
All non-profit organisations including those for private benefit, including those that are non-commercial (e.g. housing associations). Includes quangos and other organisations close to government, including those specifically excluded from the general charities definition (e.g. universities). Used in the US to refer to the voluntary sector.

Outputs
The direct countable products of a programme or organisation's activities. They could be classes taught, training courses delivered or people attending workshops.

Outcomes
Are the benefits or changes for intended beneficiaries. They tend to be less tangible and therefore less countable than outputs. Outcomes are usually planned and are therefore set out in an organisation's objectives.

Payroll giving
A tax-effective way in which employees can give to charity by authorising their employer to deduct charitable donations from their pay.

Primary purpose trading
Primary purpose trading is a trade exercised by a charity in the course of the actual carrying out of its primary purpose (e.g. the provision of residential accommodation by a resident care charity in return for payment).

Quality Standard
A predetermined means of measuring the quality of a function or process. Examples include IiP and PQASSO.

Registered charities
Charities registered with the Charity Commission. A charity must register if it has a permanent endowment, a total income of more than £1,000 a year and/or a rateable occupation of any land, including buildings.

Restricted funds
Funds for which the donor has specified a use. These funds must be spent in accordance with the donor's wishes and trustees cannot make the decision to remove the restriction.

Service level agreement
Used by local authorities to fund particular services provided by voluntary organisations.

Skills gap
A type of skills deficiency that occurs when staff are deemed to lack a necessary level of proficiency.

Skills shortage
Demand for applicants with the right skills outstripping the number of people with those skills.

Social capital
Norms and social relations embedded in social structures that enable people to achieve desired goals. The term is often used to refer to the stock of active connections among people including the trust, mutual understanding, shared values and behaviours that bind members of communities and make co-operative action possible.

Social cohesion
Social cohesion is the ongoing process of developing a community of shared values, shared challenges and equal opportunities. It involves enabling people to have a sense that they are engaged in a common enterprise, facing shared challenges and that they are members of the same community.

Social enterprise
Trading for a social purpose. A wide range of organisations fit the definition of social enterprise, including co-ops, community business, trading arms of charities and a variety of other businesses that use their trading activity to meet social goals such as job creation, the delivery of local services and providing opportunities for those in disadvantaged communities of geography and interest.

Social exclusion
Describes people or areas which suffer from a combination of linked problems such as poor health, unemployment, inadequate skills, low incomes, etc. Social exclusion prevents people from accessing services, participating in social activities, obtaining the support and standards of living enjoyed by the majority, and being able to become integrated into the local community.

Social inclusion
Ensuring access and freedom of choice for all individuals, regardless of their experiences and circumstances. Increasing the participation of those marginalised by lack of economic opportunity, educational achievement or other barriers.

Stakeholders
All individuals and/or groups who are affected by, or can affect, a particular project, programme or organisation.

Statement of Financial Activities (SOFA)
Financial statement introduced especially for charities in the SORP. It replaces the income and expenditure account.

Statement of Recommended Practice (SORP)
Statement of Recommended Practice: Accounting and Reporting by Charities 2000 sets out recommendations on the way in which a charity should report annually on its resources and its activities.

Statutory authority
An organisation that is required by law to provide public services (i.e. statutory services) and receives central or local government funding.

Support costs
Part of expenditure on charitable activities and may be the management of projects from a central office.

Sustainability
Organisational sustainability is an organisation's long-term viability. It is usually used in the context of voluntary organisations moving away from grant dependency and improving income generation.

Third Sector
Used as a synonym for voluntary sector.

Trading subsidiary
A subsidiary company set up to carry on the trading activities of a charity. Setting up a trading subsidiary is usually considered when the services provided are ancillary to the main objectives of the organisation (i.e. non primary-purpose trading).

Trustees
The group of (unpaid) people responsible for the control and management of a charity, which includes members of a charitable association's management committee and directors of charitable companies.

Unrestricted funds
Funds held for the general purposes of the charity, to be spent within the stated objects.

Voluntary income
Income given freely for no commercial consideration, usually in the form of grants or donations.

Volunteer
A person who donates or gives their time and skills to provide services to other people or to the wider community.

Appendix 3: List of abbreviations

ACEVO	Association of Chief Executives of Voluntary Organisations
ACF	Association of Charitable Foundations
ACT	Advanced Corporation Tax
ACD	Active Communities Directorate
ARVAC	Association for Research in the Voluntary and Community Sector
BME	Black and Minority Ethnic
CAF	Charities Aid Foundation
CCS	Centre for Civil Society
CEMVO	Council of Ethnic Minority Voluntary Sector Organisations
CIC	Community Interest Company
COIF	Charities Official Investment Fund
CRB	Criminal Records Bureau
CRE	Commission for Racial Equality
CRIS	Charity Register in Scotland
CRM	Cause-related marketing
CSO	Central Statistical Office
CSR	Corporate Socal Responsibility
CVS	Council for Voluntary Service
CSV	Community Service Volunteer
DfES	Department for Education and Skills
DTI	Department of Trade and Industry
DTLR	Department for Transport, Local Government and the Regions
EMF	Ethnic Minority Foundation
EPS	Employment Policies Survey
ESF	European Social Fund
FCE	Final Current Expenditure
FES	Family Expenditure Survey
FTE	Full-time equivalent
FMI	Financial Management Initiative
GDP	Gross Domestic Product
GLE	Greater London Enterprise
HOCS	Home Office Citizenship Survey
ICNPO	International Classification of Non-Profit Organisations
ICT	Information and Communication Technology
IDBR	Inter-Departmental Business Register
IDS	Incomes Data Services
IiP	Investors in People
IR	Inland Revenue

ISO	International Standards Organisation
ISEA	Institute of Social and Ethical Accountability
IVR	Institute for Volunteering Research
LETS	Local Employment and Training Schemes
LFS	Labour Force Survey
LSE	London School of Economics
LSP	Local Strategic Partnership
MSE	Micro-social Enterprises
NAVB	National Association of Volunteer Bureaux
NACVS	National Association of Councils for Voluntary Service
NCV	National Centre for Volunteering
NDPB	Non-Departmental Public Body
NGO	Non-Governmental Organisation
NCVO	National Council for Voluntary Organisations
NICVA	Northern Ireland Council for Voluntary Action
NJC	National Joint Council
NL	National Lottery
NOF	New Opportunities Fund
ODPM	Office of the Deputy Prime Minister
ONS	Office for National Statistics
PIC	Public Interest Company
PNPMB	Private Non-Profit-Making Body
PPP	Public Private Partnership
PQASSO	Practical Quality Assurance System for Small Organisations
PSSRU	Personal Social Services Research Unit
QSTG	Quality Standards Task Group
QUANGO	Quasi Autonomous Non-Government Organisation
RDA	Regional Development Agency
RVSN	Regional Voluntary Sector Network
SCVO	Scottish Council for Voluntary Organisations
SEU	Social Exclusion Unit
SIC	Standard Industrial Classification
SOC	Standard Occupational Classification
SOFA	Statement of Financial Activities
SORP	Statement of Recommended Practice
SRI	Socially Responsible Investment
SSDA	Sector Skills Development Agency
SSC	Sector Skills Councils
SRB	Single Regeneration Budget
SWOT	Strengths, weaknesses, opportunities and threats
UKVSRG	UK Voluntary Sector Research Group
VCS	Voluntary and Community Sector
VSNTO	Voluntary Sector National Training Organisation
WCVA	Wales Council for Voluntary Action