**The sources of income of English and Welsh charities: an organisation-level perspective**

**Abstract** Despite the prominence of voluntary organisations in public life and their high policy profile, there is a need for improved evidence regarding the funding base of individual voluntary organisations. This is relevant to theoretical debates about the role of such organisations in a mixed economy of welfare as well as to substantive questions about the balance between public and voluntary initiative. Using unique data for a sample of 7,000 charities in England and Wales, for the first time we describe the distribution of charities according to the composition of their income. Importantly, the results illustrate the diversity of organisations with charitable status. They therefore serve to illustrate the different roles that charities play in a mixed economy. They also provide empirical context for substantive discussions relating to the identity of the charitable sector, including the notion of its “hybridity” – the extent to which an individual organisation draws upon a plurality of financial sources.

**Keywords** charitable donations; charity; income sources; third sector; voluntary organisations.

**Introduction**

Recent public policy in the UK has emphasised the importance of the voluntary sector, not only in terms of the provision of services but also in the building of a Big Society in which “people come together to solve problems and to improve life for themselves and the community” (Conservative Party, 2010, page 1; see Alcock, 2010a; 2010b; Alcock and Kendall, 2011). If the sector is to respond to the expectations placed upon it, however, an informed understanding of the resources available to organisations, and in particular of the mix of resources on which they rely, is necessary. This can help comprehension of the differential exposure of different subsectors and individual organisations to particular funding streams, and it can provide a better understanding of the beneficiary groups to which the activities of certain organisations are oriented.

The evidence base on the financial resources of voluntary organisations themselves has some limitations. Administrative data, gathered by regulators of voluntary organisations such as the Charity Commission in England and Wales, provides only a partial picture of key financial characteristics of the sector. Only charities above a financial threshold of £500,000 are formally required to provide much detail on their income sources but the reporting categories used (voluntary income, income from charitable activities, and income from activities for generating funds) are by no means unambiguous (Morgan, 2011; 2012). As an illustration, voluntary income will include charitable giving from individuals, but there are possibilities for classification of other kinds of income under this heading (e.g. grants, including, potentially, grants from government). Likewise, income generated from charitable activities could include both sales of services to individuals (i.e. income from fees) as well as government contracts. We cannot therefore rely upon administrative sources to provide an unambiguous and clear picture of the funding base of the voluntary sector. There are extensive national surveys of English voluntary organisations (the National Survey of Third Sector Organisations (NSTSO, in 2008) and the National Survey of Charities and Social Enterprises (NSCSE, in 2010)) but these only ask about whether or not organisations receive a particular source of income, not the amount of it.

Researchers have therefore gathered data directly from charity accounts, to explore income sources in more detail. The initial analyses of Posnett (1993), Lane *et al.* (1994), Osborne and Hems (1995) and others have has been built on subsequently by the National Council for Voluntary Organisations (NCVO) in their annual publication, the *Civil Society Almanac*, to generate estimates of the total amount of voluntary sector income that comes from different sources (Clark *et al.*, 2012). Individuals, through a combination of donations and purchases, and government, through grants and contracts, are the voluntary sector’s two main sources of income, providing £14.3bn and £13.9bn respectively in 2009/10 (39% and 38% of total sector income).[[1]](#endnote-1) Clark *et al*. (2012) also show how these totals have changed over time: both have significantly increased in real terms since 2000/01, when income from individuals was £10.0bn and income from government was £8.6bn. Indeed, the economic weight of the UK voluntary sector has grown considerably over the last 25 years (Milbourne, 2013). The biggest increases in aggregate income have been through increases in government funding of voluntary organisations, through their increased involvement in public service delivery, as government increasingly becomes the purchaser, rather than the direct provider, of public services (Lewis, 1993). The extent of this growth in public funding has been distinctive from a cross-national perspective and makes the UK voluntary sector an interesting case (Kendall, 2003): while remaining different from the ‘corporatist non-profit regimes’ of continental Europe, it has become less similar to the US context, the ‘liberal nonprofit regime’ with which it is often compared (Salamon and Anheier, 1998).

This body of work provides reasonably robust estimates of the scale of the charitable sector. However, it has emphasised aggregate figures across the charitable sector as a whole, and to date income composition has not been examined at the organisation level. Yet it is at this level that there is particular potential for quantitative research to both illustrate relevant theory about the role of voluntary organisations, and to provide empirical context for discussions about the charitable sector’s identity. This is because theoretical statements – notably the “benefits theory of non-profit finance” – make connections between the composition of an organisation’s income and the nature of the benefits provided by that organisation. This perspective therefore analyses the income composition of organisations in the light of influential theoretical statements about the roles that voluntary organisations play alongside the market and the state. We elaborate on this point in the next section.

We make three key contributions. First, using novel data, we describe patterns in the composition of voluntary organisations’ income. We focus on voluntary organisations with charitable status.[[2]](#endnote-2) We use data detailing charities’ income from various sources – including income from individuals (identified separately according to donations/fundraising; legacies; and fee income from charitable activities), government, and other sources. It is our contention that no other study, in the UK, US or elsewhere, has been able to provide such a detailed profile of charitable income sources at the organisation level. For instance, recent work by Teasdale *et al*. (2013) focuses on a binary distinction between commercial and donative revenue, but does not disaggregate funding sources in more detail.

Second, we apply theoretical insights relating to the role and contribution of voluntary organisations. By describing the distribution of voluntary organisations according to their income composition, we offer original insights into aggregate patterns in the nature of goods that charities provide. For example, what proportion of charities rely for a substantial proportion of their income on one particular income source, and what might this tell us about the benefits that charities provide? Is there a clear division in the distribution of organisations between the ‘donative’ and the ‘commercial’ (Hansmann, 1996)[[3]](#endnote-3), indicating a bifurcation between those providing largely collective goods, on the one hand, and largely private goods, on the other? Or do many organisations receive income from a variety of sources, consistent with the provision of both collective and private benefits – and which kinds of organisations are these? Indeed, since the ‘benefits theory of nonprofit finance’ predicts a relationship between the composition of an organisation’s revenue and the mix of services that it provides, this paper provides an opportunity to use empirical information on the diversity of charities’ revenue to provide insights into the diversity of charities’ mission.

Third, in addressing the empirical and theoretical aims above, we seek to improve the statistical evidence base on the income of voluntary organisations (Tarling, 2000; UK Statistics Authority, 2012). This challenge is not unique to the UK. Despite the long tradition of analyses of datasets and nonprofit organisations in the US, equivalent data are not yet readily available there: nonprofits are registered with the Internal Revenue Service and, since the data are public, searches of particular organisations are possible, but the data are not readily aggregated, categorised or studied statistically (Noveck and Goroff, 2013).

Seaman and Young (2010, page 10) identify the ‘serious’ need for greater specificity in income categories, including the separation of government income from fees from individuals (page 11), a matter that is becoming even more important in an era of ‘hybrid’ organisations. It has been argued that otherwise promising and innovative work on voluntary organisations’ income composition in the US has been significantly hampered by the conflation of private fees from individuals with income from government (Fischer *et al.*, 2011; Wilsker and Young, 2010; Young *et al.*, 2010). Therefore, the data analysed in this paper offers new opportunities for examining the income composition of voluntary organisations.

We first elaborate on the theoretical background to our work and then move on to a discussion of the data and approach adopted in this paper. After presenting the results, we relate our empirical findings to influential theory about the role of voluntary organisations, and to prominent substantive discussions about the nature of the charitable sector.

**Theoretical perspectives: the benefits theory of voluntary sector finances**

An empirical examination of income sources at the organisation level provides an opportunity to evaluate theoretical predictions regarding the different roles that voluntary organisations play in a mixed economy. The ‘benefits theory of nonprofit finance’ connects the composition of an organisation’s income and the nature of the benefits that it provides (Young, 2007; Young *et al.*, 2010). This perspective therefore connects the abstract propositions of foundational theories designed to account for the existence of voluntary organisations, on the one hand, and the income composition of individual organisations on the other. Commentators such as Weisbrod (1975), Hansmann (1980; 1981) and Salamon (1987) have argued that particular income sources are associated with particular roles played by individual organisations. Therefore, describing patterns in the income composition of voluntary organisations provides insights into aggregate patterns in the nature of goods that charities provide (Young, 2007; Weisbrod, 1988).

First, donations from individuals are associated with the provision of ‘public’ or ‘collective’ goods that are not supplied by the market or the state. Economic theorists emphasise this as a central role for voluntary organisations. Thus Weisbrod (1975; 1988) explains how these goods are undersupplied by the market, since consumers have the opportunity to consume them without paying, while the state only responds to the demands of the electorate, typified by the ‘median voter’ – so voluntary organisations provide for the unsatisfied demand for collective goods. Pure collective goods are nonexcludable (it is hard to prevent people from consuming the good) and nonrival (adding more consumers does not diminish the value of the good for others). However, other goods are considered ‘quasi-collective’ – particularly those that accrue to disadvantaged individuals unable to pay for them. In these cases the goods are valued by all who care about these disadvantaged groups (Steinberg, 2006; Young *et al.*, 2010). Note that the collective benefits that many organisations provide can be regarded as ‘group benefits’ since they are provided on a ‘selective and focused’ basis, catering for particular segments of the population, and they may not appeal to the ‘wider general public’ (Young, 2007, page 346). However, while this distinction between ‘group benefits’ and wider ‘public benefits’ is a useful one, it is also ‘necessarily fuzzy’ (Young, 2007, page 347) and we are not able to operationalise this distinction in our empirical work in this paper[[4]](#endnote-4).

Second, fees from individuals are associated with the provision of ‘private’ benefits and services to individual recipients. Hansmann (1980; 1996) explains how voluntary organisations provide services where it is hard for consumers to evaluate the quantity or quality of the goods provided. This may be because of the inherent challenges which face individual purchasers in assessing the costs and benefits of services, as in education or long-term health and social care. This judgement is made more difficult when the purchaser does not consume the service directly, as when relatives arrange care for the elderly. In such situations, forprofit providers may have an incentive to exploit ‘information asymmetries’, but the nondistribution constraint, a key defining characteristic of voluntary organisations, serves as a signal of trustworthiness (Hansmann, 1980). Note that trustworthiness can also form an important reason for voluntary organisations’ involvement in the provision of quasi-collective goods, that are financed by donations, where information asymmetries are present.

Third, income from government is associated with the provision of public services, or services consistent with government priorities. Salamon (1987)’s theory of voluntary failure provides a theoretical basis for the entry of voluntary organisations into partnerships with government to provide services. Government is seen as well placed to generate resources through taxation – helping to address ‘voluntary failure’ where the financial resources provided through charitable donations are insufficient to produce services on a sufficiently consistent and reliable basis. On the other hand, voluntary organisations are said to have a comparative advantage in terms of their ability to personalise and adjust services to the needs of users compared to public providers. Thus government may choose to fund the provision of public services through voluntary organisations, rather than provide them directly. The insights provided by the theory of ‘voluntary failure’, when combined with insights into market and government failure, provide the basis of ‘three failures’ theory (Steinberg, 2006). Three failures theory not only helps to account for the existence of voluntary organisations but also establishes the link - as formalised in the related ‘benefits theory of nonprofit finance’ - between the nature of the goods and services provided by organisations and the sources of their income.

Fourth, there are certain cases in which the income of voluntary organisations may be associated with the provision of ‘trade benefits’: as charities look to build partnerships with other organisations, they may offer of something of value to a partner in exchange for their support (Young, 2007). For example, for-profit organisations may offer financial sponsorship to a charitable organisation and, in ‘exchange’, receive trade benefits in the form of marketing and positive public relations (Young, 2007). However, note that the provision of trade benefits is often in exchange for the receipt of non-financial resources rather than for monetary income: there may be a simple quid pro quo as, for example, when an organisation exchanges the use of premises for free accounting services from another organisation. Indeed, many cases where organisations provide ‘trade benefits’ represent examples of collaboration which involve ‘cashless transactions’ (Irvin, 2007, page 222). Therefore, since we use data on charities’ income, in this paper we are not able to empirically examine the many ‘trade benefits’ provided on this basis.

Note that some theories provide an explicit basis for a mix of different kinds of income. Hansmann (1981) explains how income from both fees and donations are associated with voluntary organisations that provide goods which are excludable but still nonrival. In the performing arts, for example, it is often the case that ticket receipts alone are insufficient to cover the significant fixed costs involved, so voluntary donations are needed, and the nonprofit distributing characteristic of voluntary organisations provides assurance that such contributions will be directed to the organisation’s mission.

Since particular income sources are associated with particular roles, examining the distribution of charities according to their income composition also puts empirical flesh on the bones of substantive discussions centring on the identity of the ‘charitable sector’. For example, some commentators see ‘public benefit’ as the key characteristic of voluntary organisations with charitable status. In the UK, William Beveridge (1948) talked of “voluntary action for a public purpose – for social advance”, while Robin Guthrie, a former Chief Charity Commissioner, argued that “charity is best defined as an action or gift to others” (1988, page 17). For this reason, there have been discussions, reflected in the 2006 Charities Act, which gave a new prominence to public benefit in the definition of charitable status (Alcock, 2008; Morgan, 2012). In this paper we do not consider whether or not charities provide a ‘public benefit’, but we do seek to more broadly establish the distribution of charities according to their *main roles*, and the extent to which they produce ‘collective’ and/or private ‘goods’. For example, what proportion of charities are ‘donative’ organisations “whose income depends heavily on voluntary contributions that are not closely conditioned on the delivery of specific goods or services to the patron” (Hansmann, 1996, page 233)? And what are the sources of such donative contributions (e.g. individuals, or foundations)? What proportion and what sort of organisations are ‘commercial’ – in other words they “receive no significant amount from donations, but derive their income almost exclusively from prices charged for private goods and services they deliver to paying customers” (page 234)?

This paper also provides an opportunity for empirical work on variations between charities in the degree of diversification of their income sources, a subject which provides insights into the mix of goods and services that individual charities provide. In making the link between an organisation’s income portfolio and the nature of the services it provides, the benefits theory of nonprofit finance not only offers insights into an organisation’s main role – but, importantly, it also suggests that a charity’s financial mix ‘reflects the *combination* of public and private benefits’ which it delivers (Young *et al.*, 2010, page 164; emphasis added). For example, from this perspective the proportion of income that comes from fees is seen as reflective of the extent of provision of private benefits (Young, 2007), while the diversity of income sources reflects the diversity of an organisation’s mission (Young, 2007; see also Weisbrod, 1988; Fischer *et al.*, 2011; Wilsker and Young, 2010). Note that an important body of research has considered whether a diverse revenue base confers advantages (in terms of providing stability in revenue and improving survival prospects; see Froelich, 1999; Carroll and Stater, 2009; Chang and Tuckman, 1994; Hager, 2001) and disadvantages (given that a more concentrated revenue base may bring lower administrative costs; Frumkin and Keating, 2011). However, there has been relatively little empirical work which, across the charitable sector as a whole, has described the extent of individual organisations’ diversification.

Illustrating the distribution of charities according to their roles, and examining the diversity in organisations’ income composition, is particularly relevant to discussions about contemporary changes in the funding base and character of voluntary organisations. The widely-used ‘structural-operational’ definition requires that to be considered part of the voluntary sector, an organisation must benefit to a meaningful degree from voluntary contributions of money and/or time (Kendall and Knapp, 1996; Salamon and Anheier, 1996). However, commentators now contend that a ‘hybridisation’ of voluntary organisations (Billis, 2010) is occurring, since those organisations receive income from sources characteristic of the public and private sectors – money from government for providing public services as part of a ‘mixed economy’ of welfare (Lewis, 1993), and/or money from commercial activities designed to generate income for their core mission (see James, 1983; 2003). The concept of hybridisation places the diversification of organisations’ revenue within the context of a wider process in which organisations increasingly adopt practices and values of both the state and the market (Buckingham, 2011; McKay *et al.*, 2015). These represent fundamental changes in the nature of organisations that are delivering welfare (Billis, 2010) – and the continuation of a trend dating from the 1980s in which the era of the ‘classic welfare state’, in which the state assumed direct responsibility for the delivery as well as the funding of public services, started to change (Harris, 2010). Importantly, Billis (2010, page 12) argues that it is not only the economy of welfare that is becoming more ‘mixed’ – but also *the organisations themselves*.

**Addressing evidence gaps: data and approach**

Quantitative research that illuminates the pattern of funding at the level of individual organisations is essential if we are to evaluate propositions about the relationship between the income composition of charities and the roles played by them. Some charities receive a higher proportion of their funding from government, leading to concerns about their independence, while others are highly dependent on fees paid by individuals in order to consume specific services, leading to concerns about whether they are genuinely charitable. While we know much about aggregate trends in such income sources, more information is needed about how these changes are reflected at the organisation level.

We draw on a unique dataset detailing charities’ income from a variety of sources – including income from individuals (identified separately according to donations/fundraising; legacies; and fee income from charitable activities), government, and other sources. The Charity Commission (CC) register was used as a sampling frame, and the sample was designed to be representative of the population of registered charities in England and Wales. Data collection involved both the capture and classification of financial information, such that income can be identified according to income source (see Figure 1). Some 500,000 lines of data were captured manually, since the accounts are not machine readable, using a custom web-based form which allowed the data entry staff to enter data in a way that replicated the hierarchy of data in the accounts. These lines were then classified, using a range of methods, to the categories in Figure 1. For the largest items by monetary value, and those that belong to the accounts of the largest charities, the account items were classified manually. Keyword searches were then used to match many of the remaining account items. Importantly during this process account items were displayed within the context of their parent items within the charitable accounts, such that the keyword searches took into account the items’ position within the account hierarchy. Further details of the sampling design, and of the collection and classification of the data from the charity accounts, are provided in (anonymised reference).

[Fig. 1 about here]

We draw on a tradition of statistical work concerned with the analysis of *compositional data*. Existing statistics on charitable income sources tend to focus on aggregate, univariate statistics – presenting totals of a particular income source (and corresponding percentages) for the sector as a whole[[5]](#endnote-5). In contrast, our substantive interest is in the income profile of the *organisation*, and specifically the composition of charitable income at the organisational level. It is not so much the total amount of income from a particular source that provides insight into the role of an organisation, but its income profile (Young, 2007; Weisbrod, 1988). This relates to an important tradition in multivariate statistics, the analysis of compositional data, which places emphasis on illustrating variation in relative, rather than absolute, values of components (see, for example, Aitchison, 1986; Aitchison and Egozcue, 2005).

We begin by illustrating the ‘marginal’ income shares for each income source. In other words, we examine income sources in isolation rather than in combination. We do this by showing the percentage of charities that receive at least a certain share of total income from a particular source. This shows high densities of charities at low income shares: for each income source considered, most charities do not receive any significant income from that source. In other words, the absence/presence of significant funding from a particular source is a key feature of the data.[[6]](#endnote-6)

The next stage is to consider the multivariate distribution of income sources. In other words, we examine the *combinations* of income sources in the portfolios of selected organisations. Given the results from the first stage of the analysis (the marginal distributions), in which the absence/presence of funding from a particular source is a key feature of the data, when we combine income sources in the multivariate analysis we find it instructive to combine a series of binary variables. Each binary variable indicates whether or not a particular source of income represents an economically ‘important’ income source for a particular charity – in the sense that it accounts for a sizeable share of total revenue. Here we define an ‘important’ income source as exceeding a threshold of 25% of total income[[7]](#endnote-7). We then identify groups of charities which share the same combinations of binary variables, and therefore the same important income source(s). This threshold is readily understandable and easy to use. We reiterate that we do not imply that an ‘important’ income source necessarily accounts for the *majority* of a charity’s income.

Our approach to meeting the need for information on charities’ income is informed by a focus on ensuring appropriate *measurement* – that the categories that we use in our empirical work align with the categories relevant to our underlying theories and our substantive interest. This has only been possible because of the detailed nature of our data. Our chosen categories are listed in Figure 1[[8]](#endnote-8).

We restrict our analysis to registered charities with an income of at least £500,000 in our analysis year (financial years ending between April 2009 and March 2010), because only these charities are required to follow *in full* the Charity Commission’s (2005) guidelines for the preparation of charity accounts, the Statement of Recommended Practice (SORP). The SORP framework gives a high level of consistency between charities in the presentation of their financial accounts – and it is “actually much more than a ‘recommended’ standard, because much of it is directly linked to regulations” (Morgan, 2010, page 214). Thus we focus on those charities for which the highest quality data are available (around 9,400 charities). These account for a small fraction (some 7%) of the number of registered charities with a reported income, but the vast majority (circa 90%) of the income of the charitable sector. Note that we are only able to examine data on charities that are registered with the Charity Commission. This excludes certain kinds of charitable organisations (see Morgan, 2011): those, such as universities, museums, galleries, and charities structured as industrial and provident societies that are covered by principal regulators other the Charity Commission and are thus ‘exempt’ from charity registration; and those that, following the Charities Act 1960 which established the register of charities in England, were ‘excepted’ from registration, including churches and places of worship.

Our sample data includes information on 7,039 (75%) registered charities with an income above £500,000. The sample was stratified by total income, with different sampling fractions for charities of different sizes. A clustered sampling design using primary sampling units – which is often used to minimise costs in surveys of individuals, and which tends to have the disadvantage of increasing the standard errors of estimates for a given sample size - was not needed in this context. It includes a census of the very largest organisations (with an income of above £10m); a sampling fraction of c.90% of organisations between £1m and 10m, and a sampling fraction of c.50% for organisations between £500,000 and £1m. Weights were used to adjust for differences in the probability of being included in the sample according to size.

**Results**

*Marginal distribution of income shares*

What proportion of charities receive the majority of their income from a particular source? Table 1 shows that, of registered charities with an income of more than £500,000, 23% receive at least 50% of total income in the form of donations or fundraising from individuals; 20% receive the majority of their income from fees from individuals in connection with their charitable activities; and 32% receive the majority of their income from government. A relatively small proportion receive the majority of their income from the voluntary sector, from internal income generation, or from other sources[[9]](#endnote-9). In total, 90% of charities receive the majority of their income from just one of these six sources.

[Table 1 about here]

What proportion of charities are almost exclusively funded from a particular source? Following Teasdale *et al.* (2013), we use a threshold of 90% of total income to identify organisations whose income is dominated by one source[[10]](#endnote-10). Table 1 shows that, of registered charities with an income of more than £500,000, 10% of charities receive at least 90% of their income from donations or from fundraising from individuals; 12% receive at least 90% of total income from fees in connection with their charitable activities; and 13% receive at least 90% of income from government. A relatively small proportion receive at least 90% of their income from the voluntary sector, from internal income generation, or from other sources. In total, 41% of charities receive at least 90% of their income from just one of these six sources.

What proportion of charities *do not* receive any significant income - in the sense of less than 10% of their total income composition - from a particular source? Table 1 shows that, of registered charities with an income of more than £500,000, the majority (100-40=60%) do not receive any significant share of their income from donations/fundraising from individuals. Conversely, around half of all charities (100-48-52%) analysed do not receive any significant income from government.

*Multivariate distribution of income shares: identifying groups of charities according to their income profile*

Theoretical and substantive interest centres on identifying groups of charities with similar income profiles. The marginal distribution of income shares (Table 1) shows that most charities receive the majority of income from just one source. For a particular income source, high densities of charities receive a negligible share of their total income from that source. Therefore, we can effectively characterise the multivariate distribution of income shares by considering a string of binary variables for every charity, where each variable represents the presence or absence of major funding from that source. Here, we define these binary variables using a threshold of 25% of total income, indicating whether or not a particular source represents an ‘important’ source of income, and we group charities according to their important source(s) of income. We did consider alternatives such as a latent class model but did not adopt them.[[11]](#endnote-11)

Most charities have one ‘important’ income source (Table 2): of registered charities with an income of more than £500,000, 74% have only one source which makes up at least 25% of their total income. For 27% of charities, this source is government; for 18% of charities, it is fees from donations associated with charitable activities; for 18% of charities, it is donations/fundraising from individuals. The charities identified in Table 1, which shows the proportion of charities with at least 75% and 90% of income from a particular source, are a subset of these groups. For example, for 27% of charities, the only ‘important’ income source is government; this includes the 22% (13%) of charities where government income represents at least 75% (90%) of total income.

[Table 2 about here]

An important part of the charitable sector, however, comprises charities with more than one ‘important’ income source. Indeed, around one in four charities have two sources that each make up at least 25% of their income (Table 2). This comprises a number of subpopulations of charities with different combinations of important income sources. For example, 4% of charities receive at least 25% of their income from government and at least 25% from individual donations/fundraising; 3% receive at least 25% of their income from government and at least 25% of their income from individuals’ fees associated with the organisations’ charitable activities. These results provides further empirical support for the notion of the ‘hybridity’ of the sector, but, in contrast to previous discussions, our focus is firmly on individual organisations rather than the funding mix of charitable organisations as a whole.

We examine differences in membership of our income profile groups according to different ‘vertical fields’ of charitable activity (Kendall, 2003). We use the International Classification of Nonprofit Organisations (ICNPO), which classifies non-profit organisations into groups based on their primary economic activity (Salamon and Anheier, 1992; 1996; see also Kane (2009) for application of this classification schema to English and Welsh charities). We present results for four vertical fields that illustrate the diversity in charities’ income composition according to the nature of their charitable activity. Across the ICNPO categories which contain at least 200 organisations, we include the vertical field with the highest percentage of charities whose only important income source is payment from individuals’ fees (‘education’); the vertical field with the highest percentage of charities whose only important income source is government (‘social services’); the vertical field with the highest percentage of charities whose only important income source is donations/funds raised from individuals (‘international’); and the vertical field with the highest percentage of charities with more than one important income source (‘culture/arts’).

The benefits theory of nonprofit finance provides a framework for understanding these differences between charitable subsectors by relating a charity’s financial mix to the nature of benefits that it provides (Young, 2007; Young *et al.*, 2010; Wilsker and Young, 2010). Thus 74% of educational charities have fees from individuals as their only important income source, largely reflecting the presence of charitable independent schools that provide private educational benefits. In contrast, for 49% of the charities providing social services, income from government is their only important income source. This is consistent with the importance of the financial partnership between the voluntary sector and government in the provision of collective and quasi-collective goods through the delivery of social welfare (Salamon, 1987). Of ‘international’ charities, which includes those promoting welfare and development abroad, over a third have donations/fundraising from individuals as their only important income source, while 15% have government as their only important income source. This is consistent with the provision of ‘quasi-collective’ goods to disadvantaged individuals, valued by all who care about these disadvantaged groups (Steinberg, 2006; Young *et al.*, 2010), and with the importance of government funding in the provision of overseas welfare. While a high proportion of international charities have two important sources of income, this reflects different combinations of individuals’ donations, government funding and funding from the voluntary sector/lottery (including charitable trusts): therefore, this does not point to the provision of a mixture of private and collective goods but rather to the partnership in the provision of collective goods between individual donors, trusts and government.

Of the charitable fields considered, charities involved in culture and arts show the highest proportion (37%) that have more than one important source of income. This reflects a variety of subpopulations of organisations with different combinations of important income sources, including both individual fees and government (9%), both individual fees and individual donations/fundraising (5%), and both government and the voluntary sector (5%). These results are consistent with theory explaining the role that voluntary organisations play in providing goods which are excludable but still nonrival. An example is the performing arts, where ticket receipts alone are often insufficient to cover the significant fixed costs involved such that other income is required (Hansmann, 1981).

**Discussion**

There is currently considerable substantive interest in the role and contribution of voluntary organisations, but little information has been available on questions such as the extent to which different types of organisations rely on particular sorts of funding, on the extent to which there are different combinations of funding mix between organisations, or on whether there are charitable organisations which rely almost exclusively on government funding. These issues can only be tackled by examining the *distribution* of organisations according to their income composition, in keeping with the statistical concern for understanding the variation underlying aggregate statistics. Using unique and recently collected data, this paper is able to answer these questions for the first time.

Our results illustrate influential theories which explain the reasons for the existence of the voluntary organisations with reference to the roles that they play alongside the market and the state. For 18% of the charities considered, donations/fundraising was their only important source of income (which an ‘important’ source represents at least 25% of total income), a result which is consistent with the provision of ‘collective’ or ‘quasi-collective’ goods undersupplied by the market and the state (Weisbrod, 1975; 1988). This group is relatively common, for example, among organisations working internationally in relief and development, representing 35% of charities working in this field. Theoretical work suggests that the involvement of charities in the provision of overseas welfare is promoted by the non-profit distributing characteristic, which acts as a signal of trustworthiness for donors who have little contact with the overseas ‘third party’ receiving assistance (Hansmann, 1996). For a further 18% of the charities considered, fees in connection with their charitable activities was the only ‘important’ source of income, consistent with the provision of ‘private’ goods, such as education and health care, largely benefiting individual purchasers. For 27% of the charities considered, government was the only important source of income. The high number of these organisations, particularly in the social services field, reflects the UK’s ‘mixed economy’ of welfare or ‘third party government’ in which government is the funder, but not necessarily the deliverer, of public services (Salamon, 1987; Lewis, 1993; Harris, 2010). Meanwhile a significant fraction of charities – a quarter – have two sources of income that each make up at least 25% of their total revenue, providing important empirical context to research which discusses the diversity of voluntary organisations’ income sources (Froelich, 1999; Carroll and Stater, 2009; Chang and Tuckman, 1994; Hager, 2001).

The results also provide important empirical context for prominent substantive discussions relating to the identity of the ‘charitable sector’. Many see voluntary organisations in general, and charities in particular, as essentially private suppliers of ‘collective’ goods. Thus Robin Guthrie, the former Chief Charity Commissioner, argued that “charity is best defined as an action or gift to others” (1988, page 17) – reflecting the expectation of public, rather than private, benefit. However, this paper shows that, of registered charities with an income over £500,000, the majority (60%) do not receive any significant income from charitable giving or fundraising (if by ‘significant’ we mean at least 10% of total income). Meanwhile, William Shawcross, the chair of the Charity Commission, points out that “most members of the public, when asked, would say a charity is an organisation funded from private donations, not public funds”.[[12]](#endnote-12) Yet, in contrast to this public perception, the material presented here shows that 32% of registered charities with an income over £500,000 receive the majority of their income from government (some of these may have more than one “important” source of income, which explains why this proportion is larger than the 27% for which government is identified as the single ‘important’ source); 22% receive at least 75% of their income, and 13% receive at least 90% of their income, from government. Given Shawcross’s emphasis on private donations, it is also interesting to note the significance of fees paid by individuals for the services of charitable organisations, such as private schools; for 18% of charities, fees are the only ‘important’ income source. Because the benefits of these institutions – particularly private schools – accrue principally to individuals from the better off sections of society, the extent to which they should continue to enjoy the tax privileges of charitable status has being questioned from time to time, though a recent judgment has affirmed that they should.[[13]](#endnote-13)

Note that, in relation to these issues, there are very different normative views of what the funding picture ‘should’ be. Thus, in relation to government funding, there are splits on the left between those who favour direct state provision of welfare services and those who take a modernising third way position, and tensions on the right between those who are in favour of the marketisation and privatisation of welfare services, and those who argue that charities should be free of state interference (see Teasdale *et al*., 2013; Smith and Teasdale, 2012). This paper does not aim to evaluate these different views. Instead, the paper provides an evidence base, in the absence of previous empirical information, by clearly describing the current distribution of charities according to their income composition.

Importantly, the nature of this distribution reveals the *diversity* of organisations that have charitable status. For each of the six income sources considered, most charities did not receive any significant income from that source. Correspondingly, most charities receive the principal part of their income from just one of these six income sources. Thus the population of charities with an income of at least £500,000 is made up of quite distinctgroups of organisations with very different funding profiles. Notably, relatively few organisations have both donations/fundraising and fees as important sources of income. Given the hypothesised link between the income mix of organisations and the mix of services that organisations provide (Young, 2007; Weisbrod, 1988; Fischer *et al.*, 2011; Wilsker and Young, 2010), this suggests that relatively few organisations combine - as comparably important elements in their mission - both the provision of private benefits and the provision of collective benefits. In this way, Hansmann’s (1996) distinction – between ‘donative’ organisations, “whose income depends heavily on voluntary contributions that are not closely conditioned on the delivery of specific goods or services to the patron” and ‘commercial’ organisations which “receive no significant amount from donations, but derive their income almost exclusively from prices charged for private goods and services they deliver to paying customers” (page 234) – is a helpful one, though it is important to also separate this latter category into income from individuals and income from government. Overall, it is clear that the common legal framework provided by charity law, and the voluntarism involved in the governance of charities, represent stronger unifying characteristics of charitable organisations than do their revenue profiles.

We turn to consider limitations of the analysis and possible extensions of this work and its potential contribution to other debates. In terms of limitations, it should be emphasised that the results presented here relate specifically to the population of charities with an annual income of at least £500,000. The patterns for smaller charities are likely to be different. In terms of the diversity of income, Fischer *et al.* (2011) hypothesise that, since larger organisations may have greater ‘slack’ in the form of reserves and infrastructure, their income portfolios may be more concentrated since there is less need to adopt income diversification strategies to mitigate against risk. In terms of receiving income from particular sources, previous analysis using survey data shows that smaller organisations, under the £500,000 threshold, are less likely to be in receipt of government funding than are larger organisations (see Clifford *et al.*, 2013). Therefore the narrative that emerges from this paper - about the importance of public funding to charitable organisations - would be less relevant to these smaller organisations. Nevertheless, while the organisations selected represent a minority of the number of charities in England and Wales, they account for the vast majority of the economic weight of the voluntary sector.

Possible extensions of this work would include longitudinal analysis, particularly in terms of evaluating whether individual income sources were more or less likely to fluctuate over time. Depending on the funding mix of individual organisations, this would have implications for their financial viability and growth. Our intention in sampling charity accounts was also to produce an evidence base for longitudinal work, and as that evidence base builds up, future analyses could explore relationships between the income mix of organisations and their external environment (e.g. changes in public expenditure, or regional variations in economic prosperity). It would also be useful to explore changes in the nature of the organisations receiving particular sources of income over time. For example, is the aggregate growth of the role of public funding a function of greater uptake of funding from the state by pre-existing organisations, or is it a result of the establishment of new organisations whose principal (even only) source of funding is national or local government? Given the widespread interest in the virtues of social enterprise models of third sector development, questions could also be asked about whether or not organisations are able to develop a sustainable future through the generation of income from fees for their services. These and other questions will be the subject of future longitudinal research.

Finally, we note two implications of this research for studies of voluntary organisations in other countries. First, in presenting statistics for the UK, it provides a frame of reference which can serve as a basis for cross-country comparative research examining differences between countries in the income composition of voluntary organisations. This is relevant to theoretical work which seeks to compare the nature of the voluntary sector in different country contexts (Salamon and Anheier, 1998). Second, it provides lessons about how empirical work in other countries might proceed. In particular, this paper has illustrated the value of examining income source composition at the level of the organisation, and not just the sector as a whole; the value of disaggregating patterns according to charitable subsectors; and the value of data which is able to identify income from government, as distinct from private fees from individuals.

**Notes**

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|  |
| --- |
| **1. Individuals: donated/raised**  Donated – donations, including gift aid claimed; membership subscriptions where these are, in substance, donations rather than payment for goods or services. Includes income from legacies.  Raised (i.e. activities for generating funds) – the trading or other fundraising activities carried out by a charity primarily to generate incoming resources which will be used to undertake its charitable activities.  **2. Individuals: charitable activities (income from fees)**  Payment for goods and services provided for the benefit of the charity’s beneficiaries.  **3. Government**  Includes income from: central government; devolved government; regional government; local government; town and parish councils; European government; foreign government; National Health Service; public corporations; Arts Council; universities.  **4. Voluntary sector and National Lottery**  Grants from charitable trusts; services provided under contract; grants from National Lottery distributors.  **5. Internal**  Includes income from investments (dividends; interests on deposits; rent from property; unclassified investments) and trading subsidiaries.  **6. Other**  Includes income from: business sector; other income. |

**Figure 1.** Guide to income sources

Note: further details on income types are provided in relevant paragraphs within the Statement of Recommended Practice (SORP) (Charity Commission, 2005): donated (paragraph 121); raised (paragraphs 143–145); legacies (paragraphs 123–127); charitable activities (143–145). Note that these paragraphs on income types relate to income from a variety of sources, while in this analysis we separate income from individuals from those received from other sources.

**Table 1.** Percentage of charities that receive at least a certain share of total income from a particular source

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | *Share of total income from source (%)* | | | | |
| *Source* | 10 | 25 | 50 | 75 | 90 |
|  |  |  |  |  |  |
| 1. Individuals: donated/raised | 40 | 30 | 23 | 15 | 10 |
| 2. Individuals: charitable activities (fee income) | 33 | 26 | 20 | 16 | 12 |
| 3. Government | 48 | 41 | 32 | 22 | 13 |
| 4. Voluntary sector/Lottery | 24 | 13 | 6 | 2 | 1 |
| 5. Internal | 19 | 11 | 7 | 5 | 4 |
| 6. Other | 9 | 5 | 2 | 2 | 1 |
|  |  |  |  |  |  |
| *From any one of sources above* |  |  | 90 | 61 | 41 |

Note: Income sources are defined in Table 1. Estimated percentages have been adjusted to account for the sampling design.

Source: analysis of the accounts of 7,039 charities with an income of at least £500,000 in the 2009–10 financial year.

**Table 2.** Percentage of charities according to ‘important’ income sources (where an ‘important’ source represents at least 25% of total income)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | |  | *By charitable subsector (ICNPO)* | | | | | | | |
|  |  | *Overall* | |  | *Education* | | *Soc Services* | | *International* | | *Culture/arts* | |
| *Only one important source* | |  | *74* |  |  | *93* |  | *74* |  | *66* |  | *62* |
|  | Government | 27 |  |  | 13 |  | 49 |  | 15 |  | 28 |  |
|  | Individuals: charitable activities (fee income) | 18 |  |  | 74 |  | 8 |  | 2 |  | 12 |  |
|  | Individuals: donated/raised | 18 |  |  | 4 |  | 10 |  | 35 |  | 8 |  |
|  | Internal | 5 |  |  | 1 |  | 2 |  | 5 |  | 5 |  |
|  | Voluntary sector/Lottery | 4 |  |  | 1 |  | 3 |  | 7 |  | 6 |  |
|  | Other | 2 |  |  | 0 |  | 1 |  | 3 |  | 2 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Two important sources* | |  | *25* |  |  | *7* |  | *26* |  | *32* |  | *37* |
|  | Voluntary sector/Lottery Government | 4 |  |  | 0 |  | 6 |  | 6 |  | 5 |  |
|  | Individuals: donated/raised  Government | 4 |  |  | 1 |  | 6 |  | 7 |  | 3 |  |
|  | Individuals: char. act.(fee income)Government | 3 |  |  | 2 |  | 4 |  | 1 |  | 9 |  |
|  | Individuals: donated/raised  Internal | 2 |  |  | 0 |  | 2 |  | 1 |  | 2 |  |
|  | Individuals: donated/raised Individuals: char. act. (fee income) | 2 |  |  | 1 |  | 2 |  | 0 |  | 5 |  |
|  | Individuals: donated/raised  Voluntary sector/Lottery | 2 |  |  | 1 |  | 2 |  | 6 |  | 3 |  |
|  | Other combinations of two important income sources | 7 |  |  | 2 |  | 4 |  | 10 |  | 10 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Three important sources* | |  | *1* |  |  | *0* |  | *0* |  | *2* |  | *1* |
| *N* | | *7,039* | |  | *971* | | *1,000* | | *287* | | *502* | |

Note: Income sources are defined in Table 1. ICNPO is the International Classification of Nonprofit Organisations (Salamon and Anheier, 1992; 1996). Charitable subsectors are illustrative, but not exhaustive: not all charitable subsectors are shown. Estimated percentages have been adjusted to account for the sampling design. A chi-squared test, which takes into account the nature of the survey design (Rao and Scott, 1984), provides evidence that income profile varies significantly according to charitable subsector (p<0.000).

Source: analysis of the accounts of 7,039 charities with an income of at least £500,000 in the 2009–10 financial year.

1. Note that these figures relate to ‘general charities’, a definition which does not include all registered charities. Notably, this definition excludes certain kinds of organisations, which are regarded as belonging to other parts of civil society but not the voluntary sector: faith groups, trade associations, mutuals, housing associations, and independent schools. In this paper, we do not apply the ‘general charities’ definition: our target population is all registered charities above £500,000 in income. [↑](#endnote-ref-1)
2. Charities are voluntary organisations which benefit the public in a way which the law says is charitable. Their purposes should be charitable, and these include the four heads of charity: the relief of poverty; the advancement of education; the advancement of religion; and other purposes beneficial to the community. There is particular substantive interest in charities since they represent a fundamental feature of a wide range of voluntary activity – and because benefits are directly related to their charitable status, which ‘provides a means by which the state grants protection for specific types of gifts, which in turn leads to benefits of regulation, reputation and tax relief’ (Morgan, 2012, page 67). Noncharitable organisations, which do not receive the same benefits, are not subject to the same accounting and reporting requirements (Morgan, 2010) and for whom detailed data are not available, are not included here. [↑](#endnote-ref-2)
3. In reality, as Teasdale *et al.* (2013) point out, this conceptual bifurcation is a seen as a simplification of a complex market reality: in practice, the boundaries between these ‘ideal types’ may be blurred. [↑](#endnote-ref-3)
4. One possible way to examine organisations providing specifically group benefits would be to identify ‘member-serving’ organisations that provide excludable collective goods to their members. Under the benefits theory of nonprofit finance, the provision of these benefits is associated with income from membership dues that are distinct from member purchases. However, our data do not allow us to separate out membership dues from individual donations and fees - a common issue given the ‘blurred lines’ between these categories (Steinberg, 2007, page 121). [↑](#endnote-ref-4)
5. Using our sample, after accounting for the survey design and using the income source categories in Figure 1, we estimate that 46% of total income across the sector as a whole comes from individuals (21% from donations/fundraising; 25% from fees), and 34% comes from government, with 7% from the voluntary sector/national lottery; 7% from internal sources; and 6% from other sources. Note the difference between the percentages for our sample, and those reported in NCVO’s figures (page 3), relate to the difference in the population of charities considered. While NCVO restrict analysis to the ‘general charities’ definition (see endnote 1) – we are interested in the charitable population as a whole and therefore examine all registered charities. [↑](#endnote-ref-5)
6. Aitchison (1986) showed that compositional data could be analysed statistically by first transforming the data into log-ratios of the proportions. However, this approach breaks down where the data contain ‘essential zeros’ – as in this context, where each charity tends to receive income from only a small number of the possible income sources – and as yet there is no general methodology for dealing with essential zeros in multivariate models for compositional data (Martin-Fernandez *et al*., 2011). [↑](#endnote-ref-6)
7. The level of the 25% threshold, as a basis for identifying an ‘important’ source, is chosen to provide meaningful insights about the *combinations* of important income sources that make up an organisations’ revenue portfolio. It reflects a middle ground along the continuum between the 10% and 50% thresholds. On the one hand - on the basis of Teasdale *et al.*’s (2013) work which defines organisations as ‘donative’ or ‘commercial’ nonprofits if they receive 90% of their income from one of these sources - using a 10% threshold would be too low. This is because an organisation with portfolio of 90% fees/10% donations would be regarded as having two important sources of income, even though it would be categorised as a clearly ‘commercial’ nonprofit under Teasdale *et al.*’s (2013) schema given the dominance of fee income. On the other hand, by definition, using anything above the 50% threshold to identify an important income source would preclude any analysis of *combinations* of important sources. Between these two extremes, using the 25% threshold provides meaningful insights about combinations of important income sources in organisations’ portfolios. [↑](#endnote-ref-7)
8. While it would be desirable to disaggregate government income by separating out government contracts from government grants, our data do not make this possible since the distinction is not always made in the charities’ accounts. [↑](#endnote-ref-8)
9. The other category includes income from forprofit businesses. Therefore, to the extent to which organisations receive financial support from businesses in exchange for the provision of trade benefits, this represents a small part of their income mix. [↑](#endnote-ref-9)
10. Teasdale *et al.* (2013) use this threshold to distinguish commercial from donative and donative revenue, but do not disaggregate separately between income from individuals and government. [↑](#endnote-ref-10)
11. Note that we considered a latent class model to group charities according to their income sources *i*. In the latent class approach, the observed response pattern of binary variables *xi* is seen as the outcome of a stochastic process, drawn from a population of charities belonging to *J* latent classes of an underlying categorical variable *y*. However, the model was not easily identified. In any case, since we would expect a non-small number of *J* categories, reflecting the variety of income profiles, model selection would have been inhibited by a lack of degrees of freedom to assess model fit. As Bartholomew *et al*. (2008) point out, there are practical limitations on the complexity of models that can be used in the latent class approach. [↑](#endnote-ref-11)
12. Speech by William Shawcross, Chair of the Charity Commission, to the Association of Chief Executives of Voluntary Organisations, 29th November 2012, available online at: https://apps.charitycommission.gov.uk/About\_us/About\_the\_Commission/Speeches/william\_shawcross\_291112.aspx [↑](#endnote-ref-12)
13. www.charitycommission.gov.uk/About\_us/Contacting\_us/p\_brief\_public\_benefit.aspx [↑](#endnote-ref-13)