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Trends in the concentration of income among charities

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Charitable organisations have become a significant economic force over the past few decades. That the economic weight of such organisations has increased is well documented (Kane et al, 2009; Atkinson et al, 2008).

However, there is substantive interest not only in changes in the level of sector income but also in the distribution of that income and how changes therein determine the competitive environment in which charities operate. Interest in this issue is typified by the debate over 'Tesco-isation', a term that has become a pejorative catch-all used to describe the perceived increase in the disparity between the large and small charities; that the large charities are, in some sense, increasingly dominating the sector at the expense of smaller organisations (Plummer, 2008; Benjamin, 2009).

Discussion of changes in the distribution of income among charities has been largely normative but the implications of changes in the competitive environment in which charities operate are not clear. Duncan Smith (2005) is critical of large charities dominating the sector on the grounds that their increasing dominance leads to a more homogeneous sector and leaves fewer resources for smaller organisations. Others argue that focusing on size *per se* is overly simplistic as it fails to recognise that large charities become so by being good at what they do (Bubb, 2009). There is similar disagreement among economists with some arguing that

increased competition among charities will lead to a decrease in the private provision of the public good (Aldashev and Verdier, 2010) and others arguing the converse (Bilodeau and Slivinski, 1997).

Whatever the consequences of competition among charities, little is known about the "market" conditions in which charities operate. In two companion papers we outline changes in the competitiveness of the charitable sector using a panel based on the population of charities in England and Wales from 1995 to 2008. This paper is concerned with the cross sectional perspective where we compare the marginal income distributions from year to year to measure changes in the distribution of total income focusing on changes in the concentration of income among the largest charities. This approach allows us to measure changes in the concentration of income using metrics such as the share of income captured by the largest 1% of charities. Measuring income concentration in the charitable sector is interesting insofar as it describes something about competition within the sector and provides a test of the "Tesco-isation" hypothesis. The full paper includes a review of the literature on the impact of competition on charities and earlier attempts to measure it; a full account of the data used; analysis of the changes in the level of income to the charitable sector; and of changes in distribution of income

for the charitable sector for both the sector as a whole and by charitable sub-sector.

We measure the concentration and changes in the concentration of the charitable sector in England and Wales. Understanding the competitive environment in which charities operate is essential to the development of policies aimed at shaping the sector. While it is widely agreed that more competition among firms is desirable there is little agreement about the impact of competition among charities on their behaviour. Previous attempts to measure the concentration of income among charities have been restricted either by the data available or by methods which do not adequately account for the increasing number of charities.

Our analysis focuses on charities registered with the Charity Commission (CC) between 1995 and 2007. The CC is a non-ministerial governmental body charged with the regulation of charities. Charities are required to register with the CC and to submit annual accounts. The data we are using have been obtained from two sources. Data for the financial years 2001/2 to 2007/8 for all registered charities, companies limited by guarantee (CLGs) and community interest companies (CICs), were obtained from Guidestar Data Services, a firm specialising in data on the voluntary sector. We include only organisations registered as charities, though some organisations can be registered as both a charity and a CLG simultaneously. Data for 1995 to 2001 have been obtained from records of the CC register held by the National Council of Voluntary Organisations (NCVO). The two data sets are compatible as they both originate with data provided to the Charity Commission.

We exclude charities which are exclusively grant making trusts to avoid double counting income in the aggregate though some double counting will remain (e.g. a grant made by a national charity to a local charity). We further restrict our analysis to "general" charities excluding places of worship (e.g. parishes, temples), independent schools and NHS-controlled organisations. All monetary variables are deflated to 2008 prices using the Retail Price Index obtained from the Office of National Statistics making all reported growth rates real.

Our primary interest is in measuring changes in the distribution of income among charities. As

noted above, any such analysis must first recognise how the size of the sector has changed. The policy implications of increasing concentration with low levels of growth will be different from those of increasing concentration with significant positive growth. We look only briefly at changes in the level of sector income and in the numbers of charities registered as such questions have been documented elsewhere (e.g. Kane et al, 2009). In the subsequent section we employ tools from both the literature on household income inequality and industrial concentration to measure changes in the distribution with a focus on the question of concentration of income among the "largest" charities in a given year.

Total sector income grew monotonically at a real average annual rate of 7.9%, more than twice that of GDP, from £10.2 billion in 1995 to £25.6 billion in 2007. In no year between 1995 and 2007 did sector income grow by less than 3.5% in real terms.

The growth of the sector has not been in total income alone as the number of charities in the sector has also increased substantially. Between 1995 and 2007, 46,502 charities in our data registered with the Charity Commission. Not all of these, however, represent a real expansion of the sector. Some will be previously established charities re-registering with the Commission. A number of re-registrations were identified in the preparation of the data and details of this linking procedure are in Appendix A of Clifford and Backus, 2010. As the Charity Commission does not track re-registrations, we cannot be certain that the linking is complete. Therefore, enumerating registrations may overstate sector growth in terms of the number of charities operating. Dissolution date is also problematic as charities can remain on the register for several years before being formally dissolved. Other charities may remain on the register as shells of charities that have re-registered. This can be done to collect bequests left to the charity under its previous registration number.

We are interested here in measuring the increase in the number of charities operating in the sector. However, the number of charities that enter our data is larger since charities enter our data only when income exceeds £1,000 and charities may register with the CC before income reaches this

threshold. Therefore, a charity may have long been registered with the Charity Commission but only enter our data later when its income first exceeds £1,000. As such the mean (£13,056) and median (£145,421) income of charities entering our data are lower than for charities registering with the Commission. This characteristic is important when considering measures of sector concentration below.

We show that the charitable sector has grown substantially both in terms of income and in terms of the number of charities in operation. Considering only aggregate growth measures of total income reveals nothing about the distribution of that income among charities.

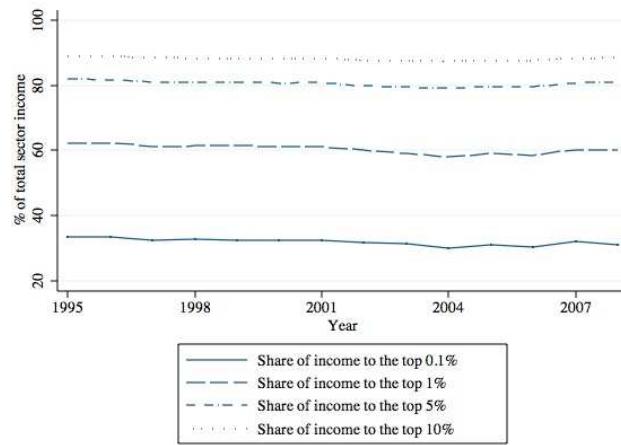
It is clear that total income has increased significantly but questions remain about how income is distributed among charities and how that distribution has changed. Is there evidence that larger charities are capturing an ever-increasing share of the “pie”? If so, have smaller organisations been left with less total income or has their income simply grown more slowly? Are changes homogeneous, or has there been a narrowing of the income distribution over some levels of income and a widening over others?

But is it the case that in the long-run “a rising tide lifts all boats”, where the growth of the sector is uniform over the income distribution? Or, do we observe the top of the distribution growing more quickly, consistent with the “Tesco-isation” hypothesis? Uniformly distributed growth implies that the distribution of income has remained unchanged over the period though the composition of the sector has changed. We use three methods to measure changes in the cross-sectional distribution of income. We first use a growth incidence curve (Ravallion and Chen, 2001), which is commonly found in the literature on household income distributions. The curve plots the growth of each quantile from year t to $t + t$ and reveals how quickly different parts of the income distribution have grown. Second we use quantile group shares. These commonly used metrics of income concentration are defined as the percentage of total sector income captured by the largest $p\%$ of charities. Thirdly, we use the n -charity concentration ratio which is the share of total income going to the n largest charities in each year where n is fixed over time. We apply these methods first to the charitable sector as a

whole and then to charitable sub-sectors, e.g. Education, International Development.

The growth incidence curve for the sector taken as a whole does not increase monotonically over the income distribution. This suggests that the distribution has changed but in a complex way: widening over the lower portions of the distribution and narrowing over the upper portion of the distribution. As such, questions as to the reality of “Tesco-isation” depend on the portion of the distribution under consideration. The growth incidence curve provides some insight into changes in the distribution of income among charities but reveals little about the concentration of sector income in a particular year or about how any changes in sector concentration evolved over the period. The figure below plots the percentage of total sector income captured by the top 0.1%, 1%, 5% and 10% from 1995 to 2007. These figures are reported in Table 2 in the full paper.

The $p\%$ income shares exhibit stability over the period under examination. The n -charity concentration ratios fall over the period. Together, these results are not consistent with the “Tesco-isation” hypothesis. They are not, however, generalisable to the sub-sectors, identified using the International Classification of Non-profit Organisations (ICNPO) classification system assigned by NCVO.



The sub-sectors vary in terms of total income and numbers of charities. In 2007, the largest sub-sector in terms of number of charities, Community Development, included over 14,000 charities while only 185 Professional Associations operated. Numbers do not necessarily translate into higher sub-sector income, however. Total income to the

Community Development sub-sector was only the fifth largest in 2007. In terms of total income, the largest sub-sector was Social Services with an income of over £3 billion while Professional Associations operated with total income of less than £80 million. Every sub-sector experienced positive growth of total income over the period though there is substantial variation across sub-sectors. Total income to Philanthropic Intermediaries grew by nearly 400% while total income to Professional Associations grew by only 50%. Note that every sub-sector grew by more than the GDP over the period.

Changes in concentration were even more varied, with some sectors becoming more concentrated and others less so. Results suggest that any analysis of the charitable sector in aggregate will miss significant sub-sector variations. Such variations are important to identify as policies designed to shape the charitable sector may have the undesired effects on many sub-sectors.

We are able to draw a number of conclusions about changes in the distribution of income among charities in England and Wales:

- the charitable sector in England and Wales experienced high levels of growth in terms of both total income and the number of charities operating, though in a given year nearly half of all charities experienced a fall in income;

- the growth of income was not uniform over the income distribution meaning that in addition to the level of income increasing, the distribution also changed. The nature of this change depends on which part of the distribution is under consideration. The disparity between “middle-sized” charities, around the middle third of the distribution, and the smaller charities increased over the period. However, the disparity between the very largest charities and these middle-sized charities fell;
- the share of total sector income going to the largest $p\%$ of charities in a given year remained markedly stable. An alternative metric which is more robust to the increase in the number of charities, the n -charity concentration ratios, fell;
- the evidence suggests that the charitable sector has experienced a fall in cross-sectional concentration. These results are inconsistent with the “Tesco-isation” hypothesis;
- The results for the charitable sector as a whole are not generalisable to sub-sectors. Some sub-sectors experienced dramatic growth of both the number of charities and total sector income (e.g. international), where others experienced much more modest increases (e.g. professional associations). Some sectors have undergone an unambiguous process of increasing concentration, e.g. health. Others have seen sub-sector concentration fall, e.g. research. For many, the picture is less clear.

This paper is part of the Third Sector Research Centre Briefing Paper Series, in conjunction with Centre for Charitable Giving and Philanthropy. See www.tsrc.ac.uk for more details and a copy of Working Paper 39.

TSRC and CGAP are producing a series of joint publications where there are synergies in our work. In particular where our research themes and activities overlap and where we are working jointly to address the agendas of both Centres. We believe that this research is of direct interest to both Centres stakeholders.

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