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The new challenges facing fundraisers chasing the Scottish pound

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Introduction

Two distinct challenges are now emerging for fundraising and the growth of civil society in Scotland. They are both directly related to the nature of the economy, in a context in which research has consistently shown income and wealth to be the main determinants of how much people give to charitable causes.ⁱ According to government statistics, Scotland's economic growth in recent decades has under-performed relative to both the UK and other European countries. Between 1977 and 2007, Scotland's annual average GDP growth of 1.9% lagged behind the UK's growth rate of 2.4%.ⁱⁱ Previous experience shows that fundraising trends follow those in the wider economic environment.ⁱⁱⁱ The recession therefore exacerbated the challenges for fundraising. With somewhat sharper recent falls in Scotland's GDP growth than for the UK economy as a whole, Scottish fundraisers have been facing a particularly tough climate. Evidence suggests this is by no means over. Recent reports show that the economy north of the Border suffered a renewed downturn in the first quarter of this year, contracting by 0.2% and not stagnating as thought previously, and while the economy went on to pick up slightly over the next quarter, financial services output tumbled and there are warnings of much tougher times ahead.

The second, related, pressure will be the impact of cuts in government spending in Scotland. Next year will see a fall of 0.9 per cent or £268 million in Scottish government

spending. So as cuts inevitably begin to bite on voluntary sector funding, the potential role of philanthropy in supporting voluntary and community sector activities has been placed under the spotlight, with the Big Society agenda explicitly highlighting the role of wealth. (See for example, '*People who have made money are part of the Big Society vision*', Jeremy Hunt, 15th July). But with wealth and access to economic growth so unevenly spread across the UK, a major challenge for the Big Society approach is to ensure that voluntary and community sector growth develops in the areas of highest need, where there is less access to the wealth which fuels private giving. This may also be particular challenges for fundraising in Scotland.

Fundraising charities will need to review trends in the balance of their income from different sources. While donations from individuals and companies may have taken the first hit from the recession, as public sector spending cuts loom many fundraising strategists will be coming full circle back to private donations as a growth area. With private fundraising likely to face an increasingly competitive environment, this paper aims to review the results and implications of emerging data on philanthropy and the diversity of the income base of Scottish charities, including new comparative national and regional on giving in the UK. (McKenzie and Pharoah, *ibid*), an analysis of Scotland's largest 50 fundraising charities published earlier this year^{iv}, and a comparison of patterns amongst the largest 50 fundraising charities in Scotland with those in England and Wales.

Comparison of giving by nation and region

At the level of household giving, the results of recent analysis show that there are marked regional variations in general household giving to charity. The research showed that differences in giving participation were strongly and positively related to differences in income, both *between* and *within* nations and regions. This means that in terms of raising the highest amount possible, there is pressure on fundraisers in Scotland to target the same relatively small target group. This convergence pushes up competition.

However, compared with the rest of the UK, participation in giving was relatively high in Scotland, at 29% compared with 25% in Wales and some English regions, but lower than the 32% found for the South West of England. Giving in Scotland remained at a steady level between 2001 and 2008, compared with Wales where there was a slow decline.

Turning to legacy giving, it is clear that Scotland faces particular challenges in maintaining or increasing potential charity funding from this source. Charitable legacies are one of the most important sources of major gifts. Now worth around £2 billion per year, they represent about 13% of all private charitable giving. There was a real fall of 3% in the value of charitable legacies in 2008-09.^v In relation to legacy giving, however, people in both Scotland and Wales are less likely to make wills, and to leave charitable bequests, than in other areas of the UK.^{vi} The research suggests, however, that not all of the variation can be explained by differences in age, gender or estate size, and is probably due to poorer traditions of will-making. There may be an opportunity here for fundraisers to raise the profile of charitable bequesting in Scotland.

The next section of the paper look at what these trends in giving mean when charitable funding is analysed at the level of charities' income.

Criteria for selecting charities

In the analysis of charities, in order to identify and compare varying dependence on funding from private versus statutory sources, combined *fundraising* income, not total income (which for some charities may have no element of private donating), was used as the criterion for selecting candidates for inclusion in the research. This involves compiling data on funds raised from legacies, donations, gifts-in-kind, company and trust grants, and events, an approach taken by the researchers in other similar charity surveys.^{vii} Where possible grants from statutory bodies are excluded from the fundraising figure, and included under income from statutory sources. However, insufficient detail is available to ensure complete accuracy in allocating income to categories. As Scotland's charities database is expanded through the work of OSCR, it will hopefully be possible in future to improve on the data. (The table excludes grantmakers, to avoid any double-counting, though there are fundraising grantmakers like the Waterside Trust).

Largest fundraising charities in Scotland

There are no precedents for analysing charities by fundraising income in Scotland, so the analysis reported here focussed on identifying the largest 50 as available from data maintained by CaritasData. It was found that the total income of the largest 50 fundraising charities in Scotland was £764 million in 2008-09, about 7.6% of the Scottish sector's total income (See Figure 1). This is a lower share than is held by the largest 50 fundraisers in England and Wales at over 10%, and is one indication of the stiffer challenges facing fundraising from private donors in Scotland. Because of this skew in income, the analysis of the largest 50 charities is a reasonable indicator of trends in the fundraising sector.

Fundraising incomes amongst the largest 50 range in a wide span from £1.5 million to £50 million. The table in Figure 2 shows that there is a large gap between the largest fundraiser, the Church of Scotland Unincorporated Councils and Committees, with a fundraised income of £50 million, and its nearest neighbour, the National Trust for Scotland, at £19 million. The latter is closely followed by two cancer charities after which figures begin to tail off rapidly. This pattern reflects that for all Scottish charities as reported by OSCR^{viii}, in which 6% of charities own 94% of charity income. OSCR's figures also show that while the highest numbers of new charities are locating in Glasgow and Edinburgh, the charity sector in these areas has quite a low proportion of private donations compared with other parts of the country. This suggests that if public funding were reduced in these places, competition for existing private funds could become fierce. There would be a challenge to bring in new private funders and donors.

The largest fundraisers contain some of Scotland's major national institutions, including the University of Edinburgh and the University of Aberdeen, National Museums Scotland, the Tattoo and the Royal Botanical Gardens. Although they have a large slice of the Scottish fundraising cake, their support is partly international, not competing with local patterns of support. Overall, the composition of the largest 50 fundraisers in Scotland demonstrates the breadth and diversity of causes in the sector, and its

significance in all aspects of Scottish society, including religion, the environment, cancer, international, benevolent funds, social welfare, the arts, hospices and young people. Assets are worth more than £1 billion.

The funding breakdown

■ Fundraising

The largest source of fundraised income to the large Scottish fundraising charities, as Figure 1 shows, is donations, which provide more than half, at £153 million. Legacies were worth £48 million, and provide a further substantial 16%. Events fundraising has an important place in Scottish fundraising, bringing in an income of almost £26 million to the largest fundraisers.

There are some striking differences between the patterns of fundraising income amongst the largest 50 in Scotland and in England/ Wales. Both samples get around half of their income from donations, but largest charities in England/ Wales get more than one quarter of their income from legacies, compared with the 16% for Scotland; events fundraising provides twice the proportion of income in Scotland as for England. It may be that events present a more attractive proposition to Scottish donors, than to those south of the Border, constituting a highly reciprocal form of fundraising, as well as providing the opportunity to participate.

Figure 1 Breakdown of the finances of Scotland's largest 50 fundraising charities

	Largest 50 Scotland 2008/09		Largest 50 England/ Wales
	<i>£ million</i>	<i>%</i>	<i>%</i>
Fundraising Income	300.3	100	100
<i>Legacies</i>	<i>48.0</i>	<i>16.0</i>	<i>27.6</i>
<i>Donations</i>	<i>153.8</i>	<i>51.2</i>	<i>49.4</i>
<i>Other*</i>	<i>98.6</i>	<i>32.7</i>	<i>23.0</i>
Statutory & Earned Income	463.8	100	100
<i>Statutory grants and fees</i>	<i>177.3</i>	<i>38.3</i>	<i>32.7</i>
<i>Trading and charitable activities</i>	<i>224.5</i>	<i>48.4</i>	<i>53.5</i>
<i>Investments</i>	<i>43.6</i>	<i>9.4</i>	<i>8.8</i>
<i>Other</i>	<i>19.0</i>	<i>4.1</i>	<i>5.0</i>
TOTAL INCOME	764.2	100	100
TOTAL EXPENDITURE	678.7	100	100
<i>Generating funds</i>	<i>77.6</i>	<i>11.5</i>	<i>22.5</i>
<i>Charitable</i>	<i>595.9</i>	<i>87.8</i>	<i>77.0</i>
<i>Other</i>	<i>5.0</i>	<i>0.7</i>	<i>0.4</i>
NET ASSETS	1,102.8		

*Other includes gifts in kind, events, donated goods and unspecified donations. See source below for further breakdown.

Source: Pharoah, C, Pincher, M. (2010). *In Search of the Scottish pound*. Caritas. Issue 30 May 2010.

■ Statutory and earned income

There are notable differences between the statutory income of the Scottish and English samples as well. Overall the largest 50 fundraising charities in Scotland get a higher proportion of income from statutory sources than is found in the English and Wales largest 50, but they also seem to get less of this as grants than as contracts. This may partly reflect the composition of the largest 50 in Scotland, which does not have as many of the large national arts charities whose statutory income is mainly in grant form, but it is also possible that funding relationships in Scotland are more dominated by contracts.

On the whole fundraising charities do not have large investment incomes, and the samples in both countries derive similar proportions of non-fundraised income from investments (9.4%, 8.8%).

Finally it is worth noting the difference in the contribution of trading income to non-donated income, at 6.2% in Scotland, compared with 17.7%. It is possible that there are fewer opportunities for diversifying income through trading in Scotland, but there may also be less of a tradition of trading. This may change as social enterprise approaches become more embedded in the Scottish sector.

Balance between fundraising and statutory income

At an overall total of just over £300 million, the fundraised income of the top 50 Scottish fundraising charities represents almost two-fifths of the total income of this group of charities (39%). This figure shows that even amongst the major fundraisers, dependence on statutory funding is greater than on private funding. It can be usefully compared with the data for the largest 50 charities in England and Wales, whose fundraising income represents over three-fifths of their income. An equally dramatic contrast between the countries is the proportion of expenditure devoted to generating funds amongst the largest 50, which is 11.5% in Scotland compared with 22.5% in the England and Wales sample. It may be that the higher dependence on statutory and public grants in the Scottish sample reduced the cost of fundraising, or that Scottish charities are more reluctant to invest in fundraising. The Scottish Fundraising Salary Survey^{ix} recently reported that average salaries for fundraisers in Scotland had fallen markedly.

Facing the fundraising challenges of the next few years

The data on philanthropy in Scotland which has been brought together in this paper show that Scotland there are some particular strengths, weaknesses and opportunities in the environment for fundraising as the Scottish voluntary sector faces the double challenges of weak economic growth (at least in the medium term), and the impact of public spending cuts. A strength is that participation in giving in Scotland is relatively high, and has remained steady over the last decade. A challenge is that giving is clearly related to income levels, and if average income falls, giving is likely to fall too.

Scotland may not be getting the most out of its legacy potential. Legacies occupy a smaller share of funding in Scotland than in England, but this is not all due to income differences. There may be a weaker tradition of legacy-giving, and stronger promotion of legacy-giving may be helpful.

The results would tend to suggest that a particular challenge in Scotland in relation to increasing philanthropy and 'the Big Society' is that even the largest fundraising charities are less dependent on private giving than those in England and Wales. This may mean that while participation in giving itself is relatively high in Scotland, traditions of private fundraising are not as well embedded in the culture of charities. Historic approaches to fundraising may also explain the weaker tradition of legacy giving, and these in themselves may be to Scotland's historic socio-economic profile, and a long history of lower economic growth than in other parts of the UK and Europe, as noted above. These factors are outside the direct control of fundraisers.

It is also important to note that when giving is reported at the household level, it may include much giving to local institutions such as children's schools, playgroups, local hospitals and the church. This means that it does not fully indicate the level of giving to formal registered charities like those included in the measurement of fundraising amongst the largest 50. One challenging issues is the extent to which a harsher fundraising climate may affect people's giving priorities. Will local causes take precedence over national ones? Will some people tend to volunteer rather than give?

Giving expenditure represents quite a small element of most people's expenditure, it is difficult to judge whether their donations truly reflect what they could afford or because giving has a low priority in spending decisions. Charities may need to do more to explain why they are needed in today's environment, the substantial contribution they make to Scottish society, and the impact they can have, particularly when government is forced to roll back and when economic growth is slow. CGAP will be continuing to analyse trends in giving in Scotland, within a continuing programme of national and regional comparisons based on a large long-term database of giving from the 1970s which it is creating, drawing on data from the Living Costs Survey (formerly the Expenditure and Food Survey). This may enable some analysis of the longer-term relationships between economic factors and giving in Scotland. Alongside this, CGAP is also looking at trends in charities' income, using data made available by OSCR.

Figure 2 Largest Scottish Fundraising Charities, ranked by their total income, (£ million), 2008-09

Name	Fund-raised income	Legacies	Donations	Stat grants/contracts	Charitable activities	Total income	A/c Year
Church of Scotland Un'd Councils and Committees	49.78	1.90	0.14	0.00	50.17	125.2	Dec-08
Culture and Sport Glasgow	8.02	0.00	7.80	69.31	15.30	97.1	Mar-08
National Trust for Scotland	18.84	4.00	14.84	5.14	3.83	48.2	Feb-09
National Museums Scotland	4.61	0.00	2.55	24.94	0.00	32.1	Mar-08
Erskine	11.99	8.63	3.35	0.00	11.54	25.4	Sep-08
Royal Botanic Garden, Edinburgh	3.82	0.00	0.00	15.43	1.19	21.1	Mar-09
NHS Greater Glasgow & Clyde Endowments	11.95	0.93	11.01	0.00	5.23	20.3	Mar-07
Association for International Cancer Research	17.41	1.51	15.80	0.00	0.00	18.0	Sep-08
Beatson Institute for Cancer Research	15.05	0.69	14.36	1.29	0.48	17.2	Mar-09
Scottish Society for the Prevention of Cruelty to Animals	10.75	6.59	4.01	0.00	0.76	13.1	Dec-08
Walk the Walk Worldwide	11.88	0.00	9.30	0.00	0.00	12.8	Dec-08
Blythswood Care	7.77	0.16	7.61	0.00	0.00	10.2	Dec-08
Children 1st	3.54	1.06	0.00	3.76	1.84	9.8	Mar-09
Civil Service Benevolent Fund	8.13	1.09	7.02	0.00	0.15	9.4	Dec-08
Maggie Keswick Jencks Cancer Caring Centres Trust	7.29	0.11	4.61	0.98	0.00	8.6	Dec-08
St Columba's Hospice Limited	3.71	2.64	0.78	2.45	0.02	8.3	Mar-08
Children's Hospice Association Scotland	5.21	1.18	0.00	0.94	0.00	7.8	Mar-09
Princess Royal Trust for Carers Chest, Heart & Stroke Scotland	6.50	0.00	6.24	0.49	0.11	7.4	Mar-09
University of Aberdeen Development Trust	4.84	3.60	0.84	0.00	1.29	7.4	Mar-09
University of Aberdeen Development Trust	6.39	0.65	4.87	0.00	0.00	7.0	Jul-08
Edinburgh Military Tattoo (Charities) Ltd	6.39	0.00	0.00	0.00	0.00	7.0	Dec-08
University of Edinburgh Development Trust	5.68	1.36	4.32	0.00	0.00	6.0	Jul-03
Scottish Catholic International Aid Fund	4.44	0.82	3.62	0.00	1.07	6.0	Dec-08
Free Church of Scotland	3.63	0.20	3.43	0.00	1.13	5.8	Dec-08
Scottish International Relief	4.02	0.00	2.87	0.00	0.01	4.8	Nov-08

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- ^{ix} Bruce Tait Associates , 2009, Scottish Fundraising Salary.