

# Sustainable Funding<sup>1</sup>



## What is sustainable funding?

Sustainable funding is an approach to funding your organisation. It is not a particular pot of money, but rather a strategy to diversify your income streams. For example, rather than being 100% reliant on grant funding, you might want to consider other funding options. In seeking a more diverse set of income streams, your organisation will benefit from less 'fire-fighting' when grant funding streams end, and will allow longer term planning.

## Context

The voluntary sector is diverse, large, and many organisations are often in competition with each other to access grant funding. In 2006/07 the number of civil society organisations totaled 870,000 in the UK comprising of approximately 600,000 informal groups, general charities, cooperatives, community interest companies, universities and independent schools. You can imagine all of these organisations competing for grant funding from the same sources. There has also been a trend for reducing pots of funds available.

Furthermore, the effects of the recession and change in UK Government will reduce the amount of public spending and pots of money that are available. According to a survey conducted in September 2008 (Charities Aid Foundation & AECVO), 88% of respondents expected Third Sector income to fall (17% had already experienced a reduction in income). This indicates that relying on grant funding may not be a viable option in the future for many voluntary and community organisations.

On the up side, studies have indicated that a large percentage of income generated has been from selling goods or services. The £18.7 billion generated by charities in London in 2005 includes 45% generated by sales, 36% from gifts and donations, 6.9% from investment and 11.2% from other sources. This indicates that many charities have survived through trading. Furthermore, for the opportunities to tender for local government contracts has been increasing where local councils are commissioning services from voluntary and community organisations. For example contracts increased from 48% in 2001/02 to 62% in 2004/05 (NCVO almanac, 2007).

## What do you need in place?

To be able to implement a sustainable funding approach, your organisation will need to know the full cost of running your organisation or particular projects and then to identify where you will obtain the money to run this project. Your organisation will also need to remain open to new ideas and opportunities that might change the way your organisation operates. Don't forget that funding is only the tip of the iceberg – the underpinning processes and elements that will make your organisation successful through various income generating methods will be the way your organisation plans and operates.

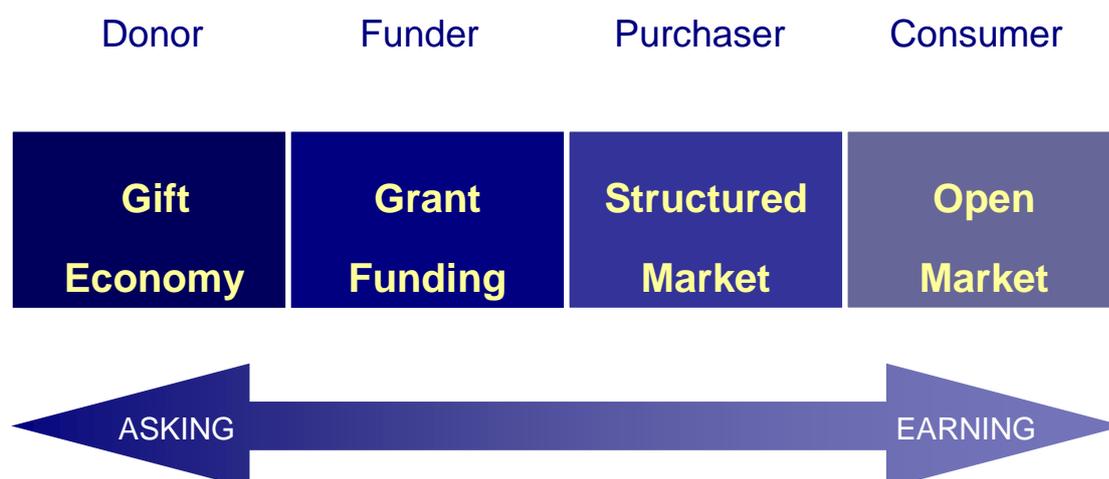


## The three “Ss”

Your organisation will need to consider three underpinning concepts for sustainable funding which conveniently all begin with the letter “S”. They are:

- **Stable:** your organisation is open to looking for alternatives to grant funding and not being reliant on one source of funding (the most common funding source for small organisations is grant funding). Reasons for this might include that there is always competition for funding, the recession has reduced the amount of public and funders’ money available, which in the future will mean less funds available.
- **Suitable:** it is important to consider the income streams that are suitable for your organisation. For example, if your organisation is just starting out, it is very unlikely that you would consider tendering for government contracts.
- **Sufficient:** you must know how much an activity or project is actually going to cost. This includes detailed activity planning processes and accurate budgeting for your activity/project or even organisation.

## The Income Spectrum



**Gift Economy:** Donations are one way of considering the gift economy. This could be donations from your users – which shows support for your services, donations from the general public (some organisations use JustGiving as an online tool for Gift Aid). You could also undertake fundraising activities such as events and challenges such as a marathon, cycling event or other type of group challenge. Some of these donations could also include in-kind donations such as food for your event or activities or donations of time or specialist skills. Large corporations may also have some sort of donation scheme to charities which could be worth exploring. This type of income is relatively unrestricted – as long as you use the donations for the activities that the donor may have contributed money for, there is a relative amount of flexibility with this type of income. You need to ensure that you keep your donors happy and inform them of your project or organisational achievements – this might mean that they will continue to donate to your organisation in the future. This type of fundraising may also assist in raising the profile of your organisation. However some negatives might include that often only small amounts of funds can be obtained through this



method. It can also be unreliable, and if you are not already doing this can take time to set up

**Grant Funding:** This is an area which is more familiar to voluntary organisations and charities. This usually involves identifying funders who have priorities in the area in which you work, and submitting applications to these funders. The benefits of grant funding include a more complete covering of your costs, can be easier for small organisations to access and there is a diverse range of grant funding available. Some funders might prefer an engaged approach when providing funds – they might provide support for your organisation, and will often appreciate contact throughout the project lifetime. They also understand that projects may not go according to plan, so going to them to discuss changes to your original proposal if needed is often good practice. However, often there are strict guidelines and bureaucracy involved and restrictions on the use of these funds. There is a very high competition for these funds and it can encourage fire-fighting or short term planning within organisations if you rely too heavily upon grants.

**Public Service Delivery:** This is an area in which voluntary organisations are playing a larger role. Commissioning is the process of *procurement* that shapes and develops services to ensure that public funding is focused on priorities that meet the *needs of residents* and, in some cases, the requirements of funding bodies and other external agencies. This means identifying local needs and planning services to meet those needs, whilst meeting local authority priorities and contributing to their short, medium, or long term plans.

Some of the benefits of tendering for services could include that they meet your organisational objectives, that there is the opportunity to secure better services for your beneficiaries (particularly if your organisation is involved in the process of defining those priorities). Generally, commissioned contracts are longer term when compared to grant funding, and you have room to negotiate the delivery of the contract (your organisation will need good negotiating skills for this). The allowance of this negotiation process means that in some cases the commissioner and the contractor will have a more equal relationship. In some cases payment for this is prompt. Some of the negatives of this type of contract include that the process is often highly bureaucratic and as such larger organisations are more likely have the systems and processes in place to tender for such contracts and win them. Also, the process of identifying needs has already occurred, so issues which have not already been identified through the procurement process are not put forward for tender contracts.

**Open Market:** The open market is essentially the selling of goods or services, or trading. Some of the positives of trading include gaining an unrestricted income for your organisation, which means that you can choose how you spend the funds, as long as it is in line with your charitable objectives. Trading can also provide a long-term financially viable income stream if it is planned thoroughly. Trading also involves a certain amount of creativity in looking for the hidden assets that you might be able to sell. However it does involve risk and will need a unique idea that will capture a particular type of buyer or market – a good “business idea”. Often, in the first three years, it is rare for a business to turnover a profit so you will need to take a long-term perspective and have enough resources to cover this period. Trading also carries a certain amount of risk if the business idea fails. The general rule for trading is to



make sure you plan, ensure you do a thorough risk assessment, and be prepared for the length of time needed for your business idea to make a profit.

In some cases for a good business idea, you might want to consider loan finance from a charity bank to kick start your idea. A loan might be able to give you the cash injection that your organisation needs to start the business. It promotes thorough business planning (and indeed a bank will not lend your organisation money unless it can be confident that your organisation will be able to re-pay the loan. It can make things happen quickly, and is in many ways unrestricted. You must recognise, however, that a loan carries a lot of risk, so before considering this you must do the work, planning and thinking to ensure that you are able to make the repayments.

### Some internal considerations to ensure that sustainable funding works for you:

- Planning, planning, planning! Everything begins with planning. Planning is a primary management function, it is a journey and an ongoing process.
- Full Cost Recovery: Ensuring you know the complete costs of what you intend to do is key to running a viable and sustainable organisation.

For more information or training on planning or full cost recovery, please see the current Voluntary Action Westminster training brochure on [www.vawcvs.org](http://www.vawcvs.org)

### Finally, money is just one piece of the puzzle!

