

What is sustainable funding?

- Sustainable funding isn't about locating one ever-lasting source of income. It is **an approach** that explores funding in the round.
- This approach begins with strategic planning and takes account of opportunities for diversification across the spectrum of income streams available to the voluntary and community sector. Sustainable funding is about exploring all the available options.
- Sustainable funding also involves thinking about what is the most appropriate way to fund your organisation. This is because the funding an organisation needs comes down to what it does, who its users are, and what stage it's reached in its developmental lifecycle. It's about using the appropriate income stream(s) to drive development at the appropriate time.

To be sustainable, funding needs to be . . .

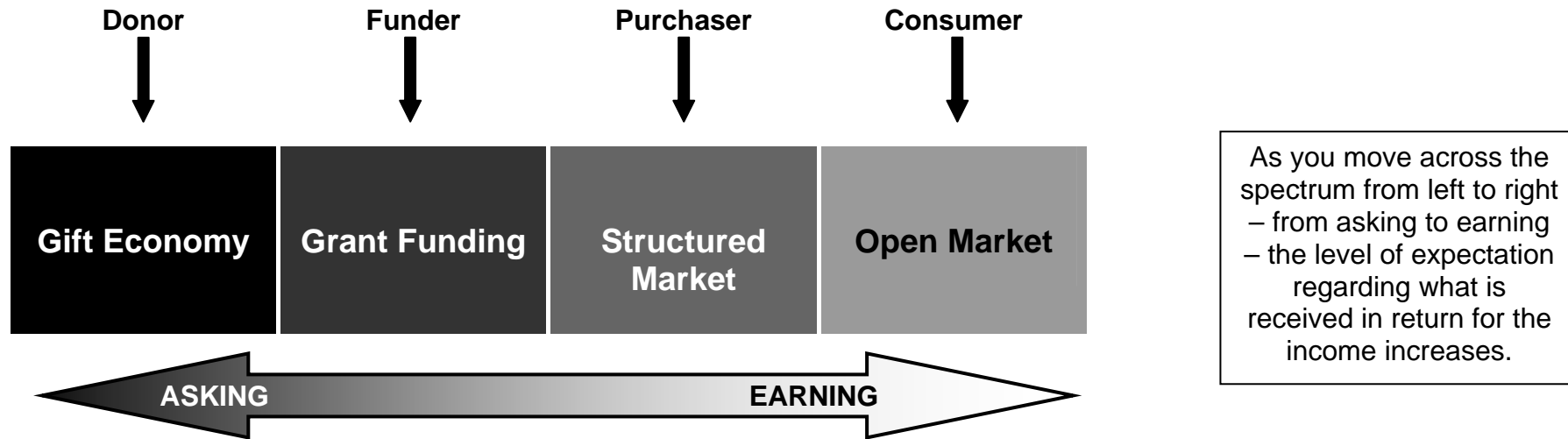
- **Stable** – it's important to have a mixture of income streams so that if one diminishes it doesn't threaten your organisation's viability overall. Also, being able to predict with confidence your future resource levels enables longer-term planning.
- **Suitable** – there are a wide range of funding and finance options which are appropriate for different situations. Understanding what each can offer, and ensuring there is a good match between your objectives and the type of funding or financing you are seeking, is essential.
- **Sufficient** – there never seems to be enough money, but understanding your costs properly allows you to make informed decisions about accepting contracts or undertaking project work. This is critical for effective planning and growth.

Also keep an eye on the long term. It is worth having a sense of potential changes to funding streams, and knowledge about emerging new ones, because this can help you with strategic planning.



What income streams are available for VCOs?

The income spectrum illustrates the range of income streams available to voluntary and community organisations (VCOs) and the relationships with the different individuals or organisations providing the funds.



- In the **gift economy** – donations, individual giving, corporate support – funds are given with the expectation that they will be used towards the organisation’s key purpose.
- Next comes **grant funding** and the specific outputs expected in return for such funding – for example, quarterly reporting or outcome assessment.
- Further to the right we reach the world of **service level agreements** and the **structured market of full-blown contracts**. By which time we are not asking for charity but trading services – typically in the structured market of statutory procurement for public service delivery, but potentially also to private and other voluntary sector organisations.
- Moving to the far right we emerge in the **open market** – earning independent income by trading goods and pursuing other social enterprise activity.

BENEFITS	Unrestricted income	Usually paid in advance	Promotes good financial management and budgeting – full cost recovery	Unrestricted income
	Can raise profile with lots of different potential supporters – face to face	Can build a relationship with funders or other partners - collaboration	Can build up relationship with commissioning body as a ‘trusted provider’	Helps you to reengage with users or new customers
	Providers PR opportunities and could help recruit ambassadors for your project	Promotes monitoring and impact reporting	Can make a surplus (costed into budget)	Promote good business management and planning
	Some types (e.g. events) can give a big one-off injection of cash	Longer term grants offer ‘breathing-spaces’	Lots of different sources	Empowering for staff and organisation
	Builds long term trust relationships with supporters	Helps to raise profile as you can use funder’s logo on publicity	Highlights commercial viability to other funders	Self-sufficiency and sustainability
	Hard to get ‘foot in the door’	Low risk	New opportunities through personalisation agenda	Promotes innovation
	Potential for large amounts and ongoing amounts once relationship established – becomes lower risk at this stage	Potentially small amount of work for high return	Promotes collaboration and new partnerships	Promotes quality checking
	Provides opportunities for service users to engage in fundraising and ‘give back’	Can often keep surplus		Promotes financial forecasting and real understanding of your costs
		Positive recognition - motivating		
	GIFT ECONOMY (e.g. DONATIONS, SPONSORSHIP, IN-KIND SUPPORT, LEGACIES, FUNDRAISING EVENTS)	GRANTS (LOCAL AUTHORITY, LOTTERY, TRUSTS AND FOUNDATIONS)	STRUCTURED MARKET (CONTRACTS)	OPEN MARKET (TRADING PRODUCTS AND SERVICES)
CHALLENGES	Unpredictable or unreliable – can be high risk	Risk of complacency or dependency on one funder	Competitive (usually)	Risk of ‘mission-drift’
	Takes a long time to build up donor base	Application and reporting can be complicated and time-consuming	Tender process is complicated and time-consuming	Risk of negative perception of your organisation as purely commercial rather than not-for-profit
	Need to be careful that fundraising effort is not costing more than money raised	Competitive	May not be paid if service is not delivered to agreed standards	Involves greater financial risks
	Competitive	Restricted income – have to stick to agreed outcomes	Restricted income (though sometimes can include bonus payments)	May require new legal structure to allow you to trade
	Requires relationship management to retain donors	Deadline driven	May require new skills (e.g. tendering)	May require new skills (e.g. sales and marketing)
		Risk of ‘mission-drift’ when chasing funding	Requires robust structure	Requires saleable product or service
		Requires robust structure	Need identified by external agency	Requires robust structure



What makes a financially sustainable organisation?

Forward planning 'The planning cycle' – ongoing methodology used by organisations to monitor work flow, manage resources, carry out evaluation, map out strategic development etc.

Considering all income streams -

- **Gift economy** - Independent giving and corporate support
- **Grant funding** – independent and statutory funders
- **Contracts / structured market** – a legal document laying out the services an organisation will provide in exchange for payment. Typically for delivering a public service
- **Open market trading** – earning independent income by selling goods or services

Understanding costs – accounting for your organisation's expenditure on the basis of incorporating all costs incurred by the organisation - core (or overhead) expenditure as well as project specific, using methods such as full cost recovery. Essential for ensuring funding bids accurately cover all potential costs, contracts are negotiated for the full cost of delivering a service, and pricing for products and services developed to generate trading income fully reflect the cost to your organisation of producing or providing those goods.

Key areas to look at in your organisation

1. **Strategic approach** – ensuring how you raise funds and what you raise funds for supports your mission
2. **Income diversity** – an appropriate mix of funding sources; donated and earned
3. **Financial management** – understanding and managing costs, income and risk
4. **Communicating success** – being able to show you are making a difference
5. **External positioning and marketing** – knowing where you fit, how you are different and how to tell people
6. **Relationships** – the relationships and partnerships with funders and others that you need to achieve your mission



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For more information, inspiration and ideas on . . .

- Earning income via contracting or trading
- Loan finance providers
- The tools you'll need to better equip your organisation to access new income streams
- Case studies of organisations who have been there already, and learned the lessons!

. . . look at NCVO's Sustainable Funding Project website: www.ncvo-vol.org.uk/sfp

- Sign up for NCVO's free monthly Funding and Finance newsletter at www.ncvo-vol.org.uk/sfp/newsletter
- Follow [@NCVOFunding](https://twitter.com/NCVOFunding) to get daily updates on sustainable funding issues, new tools, resources and events

Key tools available on our website

- Sustainable Sun Needs-Analysis Tool
- Sustainable Funding across the Income Spectrum (basic and advanced)
- Funder Needs Analysis Tool
- Exploring new Products and Markets
- Choosing the Right Legal Form

Key training events

- **Introduction to sustainable funding** – a half day introductory workshop for those new to sustainable funding
- **Make it happen** - a one day workshop helping organisations move from theory to action
- **Grow your own income** - a practical one day workshop on how to turn trading ideas into reality
- Plus a host of one-off seminars, an annual funding and finance conference, and events organised through the Public Service Delivery Network (www.ncvo-vol.org.uk/psdnetwork)

Key publications

- **The Art of Raising Money** - Using marketing theory to stabilise and grow your income
- **The Good Guide to trading** - Getting ready for enterprise
- **From asking to earning** - Exploring the journey of trading



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