Community Southwark

Developing and implementing a sustainable income approach

The voluntary and community sector is changing. We are a long way from the days when we could rely on grants and philanthropy alone. Today, voluntary and community organisations take out loans; play a major role in the delivery of public services; and trade goods and services. Whilst none of these developments is entirely new, what is significant is the scale and pace of change within the sector and the widespread recognition that having a range of diverse income streams is critical for the long-term future and independence of the voluntary and community sector.

To be sustainable, income needs to be:

- **Stable** – we live in an uncertain world with changing funding priorities. First, it's important to have a mixture of sources of income, so that if one source dries up it doesn't threaten your organisation's overall viability. Secondly, being able to predict with confidence your future resource levels gives you scope for longer-term planning, which is the key to effective and strategic use of resources.

- **Suitable** – there are a wide range of funding and finance options which are right for different situations. It is essential to understand what each can offer and to ensure a good match between your objectives and the type of funding or financing you are looking for. Planning and management skills enable you to avoid `mission-drift' (providing goods and services that are at variance with the organisation's original aims and objectives) and prove to potential and existing supporters that you are being effective.

- **Sufficient** – there's never enough money, but understanding your costs allows you to make informed decisions about accepting contracts or undertaking project work. Understanding what your costs are is critical if organisations are to be able to plan and grow effectively rather than running from project to project without enough time for proper planning and development.

The barriers to sustainable income

In our experience there are three main barriers to sustainability, which need to be tackled in parallel:

- **Desire to act** – first organisations need to be aware of the issues and understand what sustainability means for them. Considering new options for funding and financing often means taking a fresh look at how an organisation

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achieves its goals and what kind of leadership and the skills are required to manage change within it.

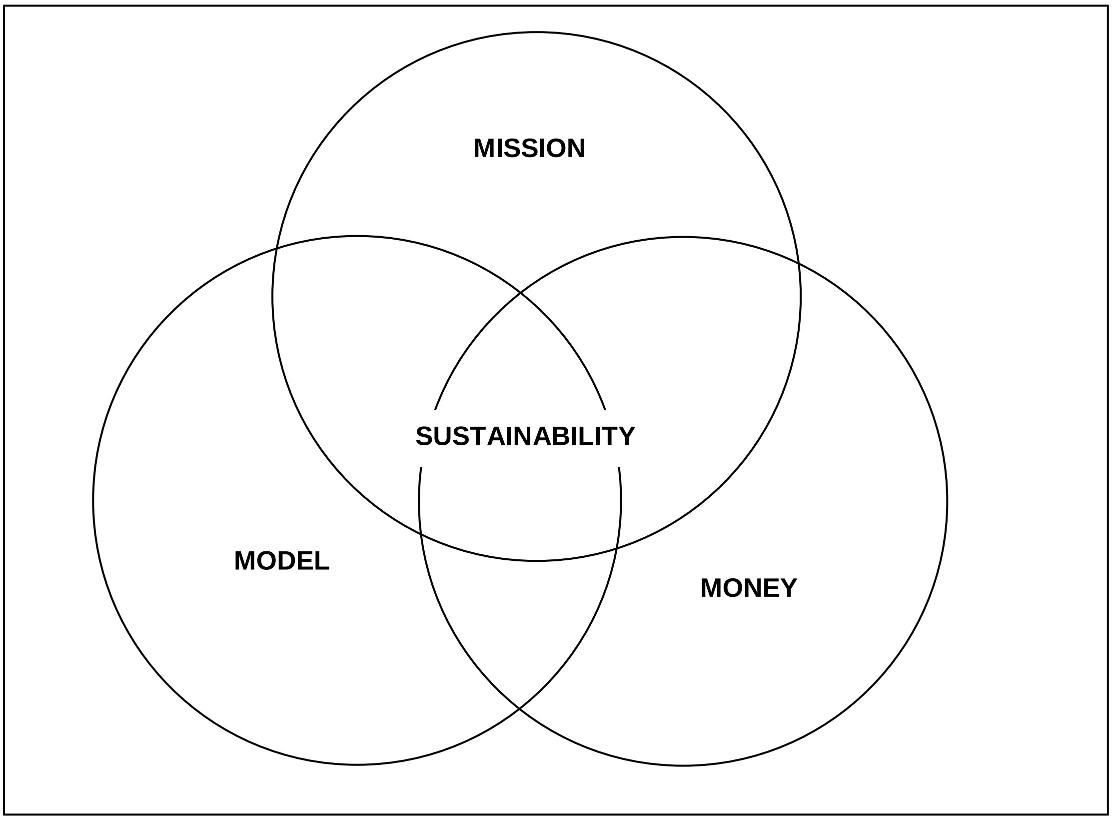
- **Ability to act** – once an organisation wants to start making itself more sustainable it then faces a challenge; does it have the right information (knowledge) and skills (capacity) to make these changes? Organisations have to identify what support they need, and where they can get it. Ensuring there is the capacity and resources within the local infrastructure - local and regional umbrella bodies such as Council for Voluntary Services - to meet these needs is a constant challenge.

- **The funding and policy environment** – to some extent the overall success of the voluntary and community sector will depend on whether people in funding and policy organisations understand the impact of their policies and practices on the voluntary sector's sustainability and whether they take steps to promote it.

Balancing mission, model and money

Sustainability requires a balance between the three inter-related areas of mission, model and money.

The diagram below shows the three inter-related areas that we need to combine to achieve sustainable income.



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Mission

You need to be clear about what you want to achieve, and be able to demonstrate that you are delivering positive and lasting change to your beneficiaries/clients – to yourself and to your funders.

Model

Understand what your activities cost. Effective financial management and planning are essential if you are to make the most of what income you have. Loan finance could help build capacity e.g. through acquiring bigger premises increases your ability to deliver services to a larger audience, or if you need to develop new assets or markets to underpin an expansion of trading or contracting activity.

Money

Don't have all your eggs in one basket. Spread the risk of the changing external funding environment through increasing your income options. Consider whether you could make money from new activities, such as selling or providing services under contract. Increase your financial stability by making sure that you have a broad range of sources and types of income – or even a range of sources that are all of one type – such as grants or donations.

Outcomes management and income generation

Voluntary and community organisations undertake extremely valuable work.
They have a real impact on people's lives and contribute immense value to society, at both a local and national level. However, the full impact of this work is not always obvious or easy to quantify. Voluntary and community organisations need to be able to measure and demonstrate their impact if they are to be able to make informed decisions about their work, and to attract investment from donors, funders or purchasers. Measuring and demonstrating the effect of an activity is the first step in what is becoming known as `outcomes management'.

'Bums on seats' is no longer seen as the only measure of success. Funders of all types – be these sponsors, donors, grant-makers or purchasers – are increasingly seeking meaningful returns for their funding; many are interested in outcomes, not outputs. *Outcomes* are the results of your work. They are often changes, such as in attitude or health, but they can also involve keeping things the same, or preventing a certain event taking place, such as stopping children taking up smoking. *Outputs* are the direct products of your activities. The services you deliver, or goods you produce to help you achieve your desired outcomes. They could include training courses, publications, or online networks. The issues that really count to most funders are the long-term effects, i.e. ensuring lasting and positive change, be it reducing crime on the local estate or protecting the natural habitat. Fortunately, voluntary and community organisations have recognised this for many years, and welcome the chance to demonstrate their value.

Lottery bodies and some of the more progressive independent grant-makers have been at the forefront of recent changes to funding practices. They have developed a model that has become known as 'outcome funding'. Outcome funding involves giving or lending money on the basis of what outcomes will be achieved, rather than simply considering quantitative measures of success. The theory of and vision for outcome funding is as simple as it is sensible. However, there are undoubtedly challenges in its implementation

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for the organisation that is delivering the services. Unpicking and understanding these challenges is the first step in negotiating the level of funding and its terms with the funder.

The first issue to consider is how you will monitor and demonstrate the outcomes that specific work may yield. It helps, for example, to closely build an outcome assessment process into the project. This sounds obvious, but linking assessment systems to particular outputs and outcomes provides both a specific and manageable framework for assessment, and goes some way to ensuring that the particular influence of a specific project is captured.

Of course, not all outcomes can be predicted. To make sure that you do not miss unexpected outcomes, develop systems of assessment that ask sufficiently open questions, so that you can record and review side-effects. An open system will also help in the assessment of non-statistical, qualitative data – for instance, supporting a claim that after attending a life-skills programme young people's levels of self-confidence increase.

People often ask when is the best time to assess? There is no simple answer. The length of funding awarded to an organisation is seldom aligned to the time it will take to resolve complex problems – how can you judge outcomes or impact after only two or three years? For this and other reasons you must be realistic about what any system of assessment can achieve in a given time-frame.

The evaluation – also known as an outcome assessment – aims to discover whether the products and services voluntary and community organisations provide are meeting their beneficiaries' needs and are contributing to the organisation's long-term goals. It can also improve the effectiveness of an organisation by helping everyone to focus on common goals. Outcome assessment focuses mainly on what is to be *achieved* not what is to be *done* – long-term impacts, not 'headcounts'. An organisation attuned to this way of thinking is more likely to identify what works well, and what doesn't.

There is no single method of assessing outcomes. Every organisation has to tailor its approach to its own circumstances. However, if the process is to be effective, the focus on outcomes must be on-going and fully integrated into every aspect of an organisation. The costs and time involved in implementing an outcomes approach need to be included in project budgets and plans. The process of monitoring beneficiaries' and clients' opinions, and collecting qualitative data, makes it possible to respond directly to their wishes and needs. This can influence the behaviour of the entire organisation, and assist a project's management board, or trustees, to take users' views into account in their long-term strategic planning.

Money: diversifying the income base

The key factor in achieving sustainable funding is to spread the sources of your income, so that if any one source is threatened, you have other sources that you can turn to. For example, although your organisation may be very successful in funding existing work from project grants or contracts, without money that can be used at your organisation's discretion (unrestricted income), which you can spend on research or on trying out new services or activities, you will find it hard to innovate and improve activity, or sustain things if the external environment changes.

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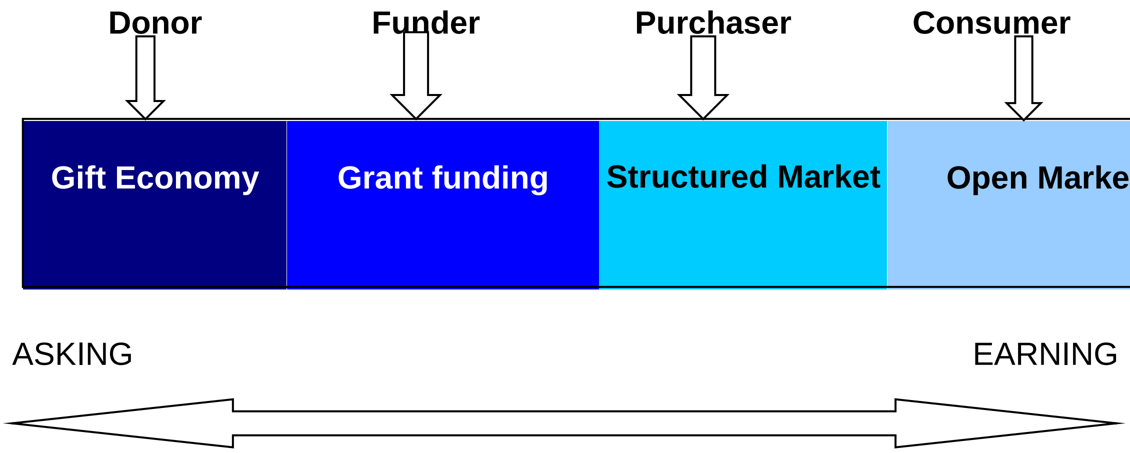
Inevitably, some kinds of income are steadier and more long-term than others. If you are getting income from letting out office space for five years at a time, your income from this is easier to predict, than if you are relying on money from people hiring a room for public meetings. Having a diverse range of longer and shorter-term income streams enables you to plan ahead and make effective use of what you have.

Diversification could involve increasing the types of income streams, for example, starting a new trading activity (selling something) to supplement an income that comes mainly from grants. Equally, it may be possible to diversify options within one type of income. Trading, for instance, might currently involve hiring out car parking spaces to neighbouring offices; it might expand by setting up a new consultancy service, exploiting marketable skills within the organisation.

The range of income options open to the voluntary and community sector includes grants and donations, sponsorship and trading goods and services. Each of these options suits different types of activity and has its own requirements in terms of how funding is secured and managed.

But while all organisations may be different, the message of diversification has universal relevance. Over-reliance on any single income source is a risk. It is much better to have a diverse income base.

From asking to earning – the income spectrum



The above diagram illustrates the principal income options available to voluntary and community organisations – ranging from donations to trading. On the left the gift economy and grant funding together are forms of 'asking' or fundraising. On the right we have 'earning', through the structured and open markets.

These different income types are suitable for different types of activity, are accessed and managed in different ways, and involve different kinds of relationship with the donor, funder, purchaser or customer. And, as we move across the spectrum, from left to right, the expectations of what is received in return for funding changes, increasing in demand as we trade in the open market. Across the income spectrum there is also variation in the regulatory context which impacts on how income is generated and needs to be considered and carefully managed.

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The gift economy

Gift economy means donors; this is often called philanthropic giving, whether from individual or corporate donors. Other names for this income type are ‘voluntary income’ or ‘charitable giving’. The gift economy provides unrestricted income – in other words, funds which can be used at the voluntary or community organisation’s discretion to further its charitable aims, rather than being tied in advance to specified projects or activities. In giving, a donor is not expecting a specific return for their investment, instead they are providing general support to help you do your work as you see fit.

Grant funding

Grant funding is more likely to be tied to specific purposes – outputs or outcomes. Thus grant funding is usually restricted; it can only be used for the purposes for which it was requested. Therefore, grant-givers are likely to want to monitor what you do with their money and have clear expectations about what you will achieve with it. Statutory funders, such as the central government departments and Local Education Authorities, as well as National Lottery funders work have guidelines about how money is spent, which may have implications for managing a grant and accounting for it. Grant funding suits projects that have a clear start and end point and clearly defined outcomes. Grant funding can also be used effectively to try out something new – a certain kind of project which, if it works, could later be financed through other sources (for example, through the structured or open market, which we explain below).

Longer-term activity, or activities which are at an early stage in development, often find it harder to attract grants. Grant-givers’ policies may result in priorities for giving which do not always match your needs. Stiff competition for this type of funding also makes it increasingly difficult to obtain.

The structured market

The structured market involves payment for goods or services according to the terms set out in a contract between a voluntary or community organisation and a third party known as a purchaser. The buyer for goods and services on offer from a voluntary or community organisation could come from the public or private sector; it could also be another voluntary organisation. This will probably determine how the funding is regulated. Providing public services under contract is a big growth area of this type of funding.

The open market

At the opposite end of spectrum to the gift economy we have the other major area of unrestricted income: the open market. When trading goods and services in the open market, we are in business, generating income directly from customers. There is practically no limit to the range of goods and services you can sell. Some types of trading are undertaken purely to generate profit; some may also further the goals of your organisation, e.g. Traidcraft goods provide a living wage to farmers in the developing world.

Within the range of options described in this income spectrum, and within each income type itself there is enormous variety and possibility. As each voluntary organisation is unique, so the options open to them will be different, and may change according to the types of activity they are doing and the particular stage of the organisation’s life.

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It is not just about money…

The key to sustainable income is realising that sustainability is not just about money. It is about voluntary and community organisations positioning themselves in a systematic way to find new sources and types of income. The income an organisation needs comes down to what it does; who it does it for, and what stage it has reached in its lifecycle. Sustainable income is about using the right income streams to drive development at the right time.

For example, trading requires marketing skills, such as understanding your customers and what they want. Getting income through contracts means you have to build relationships with potential purchasers and learn how to negotiate contracts. Implementing full-cost recovery may require negotiation skills, but also having the confidence to walk away from contracts which fail to meet this.

Similarly with grants and donations, organisations need to consider when such funds are most useful and when other income streams would actually be more suitable and, ultimately, sustainable.

There are no magic answers, no simple solutions and no pots of gold – every group and organisation is unique. But there are many opportunities out there waiting to be tapped into for those wanting to exploit a full range of funding and financing options to develop a sustainable income mix.

Resources

- NCVO Income Spectrum from the Sustainable Funding Project
- The Income Spectrum – NCVO blog on sustainable funding
- Funding Central – NCVO Income Spectrum Tool
- Know How Non Profit – Achieving Sustainable Funding
- The Big Assist - Achieving Sustainable Funding

Support

If you would like any support with income generation, fundraising or any other issues facing your organisation, please contact the Development Team at Community Southwark: development@communitysouthwark.org.uk or 020 7358 7020

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