



## INTRODUCTION TO SUSTAINABLE FUNDING



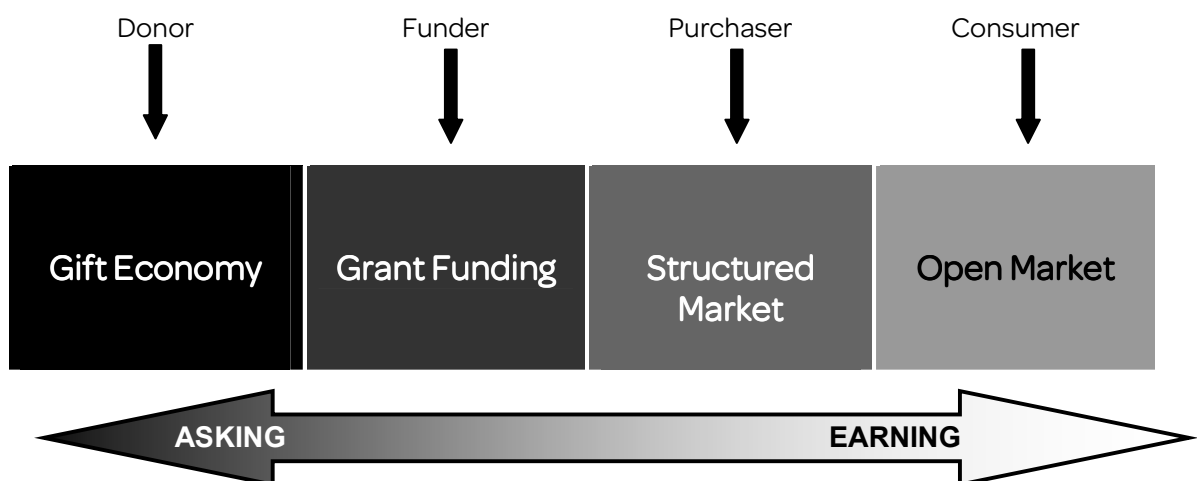
### KEY MESSAGES

#### 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 range of income sources 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.

#### 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.



As you move across the spectrum from left to right – from asking to earning – the level of expectation regarding what is received in return for the income increases.

- In the **gift economy** – donations, individual giving, corporate support – funds are given with the expectation that they will be used towards the organisation's main aim.
- 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**. At this point we are not asking for charity but trading services – typically to deliver public services contracted by public sector bodies, 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.

Organisations need to be aware of the skills that will be needed to access the different funding sources. But even before you start thinking about money you must ensure correct planning processes are in place: **everything begins with planning**.

Within the range of options there is enormous variety and possibility. Sustainable funding can involve all these income sources, or a more limited range – diversification *across* the range, or if that is not possible or appropriate, *within* a particular source of funding.

Not all organisations will be able to generate income from every income source and every organisation is unique. Nevertheless, many organisations have untapped potential for developing new income streams and for moving away from complete reliance on charitable donations and time-limited grants.

The key to sustainability is knowing which funding sources are the right ones for your organisation to explore and how you can develop the capacity to secure and manage them.

Stable organisations are those which diversify as broadly as possible across the income range, ensure funding bids and income development is under-pinned by the practice of **full-cost recovery** and engage in sound financial management.

Sustainable organisations approach funding opportunities on a pro-active and systematic basis, and are open to new income sources, options and ideas. In order to be able to deliver contracts or develop a trading arm organisations will probably have to develop new skills and buy in some new resources. **Loan finance** can be a way to do this.

### How can I summarise that?

To be sustainable, funding needs to be:

- **Stable** – it's important to have a mixture of income sources 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 sources, and knowledge about emerging new ones, because this can help you with strategic planning.



## KEY TERMS

**Sustainable funding** – see above.

**Short-term project funding** – the staple of the Voluntary and Community Sector (VCS). Namely the one to three year grant which is typically ring-fenced for a particular project (which has to be developed, delivered and evaluated all within the funding period), often pays only for specific project-related costs and not overheads, and which has to be spent within the funding period or else may be reclaimed by the funder. Such funding methods are often responsible for short-term thinking and the ‘trapped in a cycle’ hamster wheel, or tail-chasing effect experienced by some organisations.

**Planning cycle** – ongoing tool used by organisations to monitor work flow, manage resources, carry out evaluation, map out strategic development etc.

### Income streams:

- Gift economy – donations from individuals and companies.
- Grant funding – trusts and foundations and public bodies.
- Service level agreement – lays out the services an organisation agrees to provide in exchange for funding. This is often made with a public body.
- Contract – 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.

**Social investment market** – loan finance from providers with a double bottom line of social benefit as well as financial return.

**Full cost recovery (FCR)** – All organisations, public, private and voluntary, incur organisational overhead costs in addition to direct project costs. FCR means accounting for your organisation's expenditure on the basis of incorporating all costs incurred by the organisation to run a service. This will include –

- Core (or overhead) costs such as organisational rent, utility bills for organisation, salary for core staff like director and finance manager
- Project specific costs

It is essential to ensure that:

- Funding bids accurately cover all potential costs
- Contracts are negotiated for the full cost of delivering a service
- Pricing for products and services developed to generate trading income fully reflect the cost to your organisation of producing or providing those goods.