Guide to sustainable funding and financing options.

Welcome to the Community Impact Bucks guide designed to introduce voluntary and community organisations (VCOs) to the range of available funding and financing options.

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Funding and financial sustainability are a top priority for all VCOs regardless of whether you are just starting out, or whether you have been in existence for a number of years.

It is not enough for VCOs to be doing ‘good work’. To ensure such work continues and beneficiary needs are met VCOs need to consider how they will fund their activities, and keep on funding them into the future. Obtaining funding can involve anything from applying for grants and implementing traditional fundraising methods, to starting to trade or delivering services under contract. There are also opportunities for using loans.
1. Sustainable funding

What is sustainable funding?

Sustainable funding is about ensuring the ongoing viability of an organisation. Sustainability is about much more than simply obtaining money. Sustainability requires effective planning and robust financial management together with an understanding of what funding and income opportunities are available and a willingness to diversify into these where possible.

It also involves building organisational skills and capacity to ensure the best and most effective use of resources.

**Good Practice for sustainability**

*Plan effectively*

Knowing where you want to be in 3 or 5 years time will help you understand the type of funding you require.

*Diversify income*

Avoid relying on a single income source.

*Develop organisational skills*

This will help you to manage new income streams.

*Fund appropriately*

The type of funding you look for will depend on the type of organisation you are. It’s important you use the right income sources to drive your growth at the right time.
How planning links to funding.

Planning should be the cornerstone of everything an organisation does. Before thinking about money organisations need to decide what their mission, aims and goals are and plan how they will be achieved.

Only when an organisation knows what it wants to achieve, and has planned accordingly, can it decide which income streams are most appropriate, and begin working to obtain them.

Good practice with Planning.

- **Involve everyone in the organisation** – in the planning process, this will ensure total buy in.
- **Understand the environment you operate in** – both internal and external.
- **Make business plans accessible**
- **Ensure written plans are relevant** – make written plans relevant to the size of your organisation and ensure that everyone knows what these plans are.
2. Financial Management

Why good financial management is important.

Financial management is about ensuring appropriate levels of funds are available when needed and that they are obtained and used in the most efficient and effective way.

Financial systems are the tasks and procedures by which an organisation processes its monetary transactions and creates its financial records.

Financial management is the use of this information as a management tool to help inform day-to-day running and future planning. Every VCO needs to value and practice effective financial management. This requires planning and the set-up and implementation of workable systems, policies and procedures which can respond to, accommodate and overcome the financial challenges that it may face. These stretches from managing day-to-day cash flow to ensuring the organisation is fully and properly paid for the work it does (achieving what is known as ‘full cost recovery’).

All staff and Trustees (not just those directly responsible for finance) should understand basic financial procedures. This includes involving finance staff in the wider planning process. It is especially the case for organisations with volunteer or part-time finance staff who can end up viewed as ‘the person who comes in to do the books’ and consequently isolated from the organisation’s day-to-day running and management. Divorcing financial management from wider organisational planning and management can lead to less effective use of resources. Worse still, it can lead to funding problems that, had they been planned for and effectively managed, could have been avoided.

Good practice with financial management.

Get professional help and support
Financial systems should be informed by financial experts and follow standard procedures.

Establish financial systems as early as possible
Get good financial systems in place as early as possible.

Use financial reporting as a management tool
Monthly accounts and budget reporting can and should be used to identify arising issues.

Communicate financial status to stakeholders
Even if you do not produce an annual report sharing end of year accounts with staff and volunteers demonstrates accountability and is a good way to share achievements.
3. Fundraising.

The principle of fundraising is to raise money by asking for it. This might be from individual donors (e.g. through street collections, events or appeals), private businesses (e.g. through sponsorship), or grant funders (e.g. Big Lottery Fund, Esmée Fairbairn Foundation).

Fundraising should complement a VCO’s primary objectives and, ideally, should combine raising funds with effective promotion of the organisation. VCOs also need to ensure the ongoing integration of fundraising plans with wider organisational plans – so that money raised matches organisational need in terms of type, size, duration and appropriateness. There are many ways to raise funds, from collection boxes, raffles, events and sponsorship, to legacy donations and applying for grants. A key skill of fundraising is communication.

Good fundraising requires being able to show donors how their gift will enable a VCO to meet the needs of its beneficiaries, or for grants that delivery will meet funder objectives.

Everybody involved in fundraising needs to have an excellent understanding of the cause. For smaller VCOs, the lines between fundraiser and service provider may be blurred and, in many cases, will be one and the same person. In such organisations the individuals responsible for fundraising are in a unique position and have a real opportunity to ensure integration between fundraising and their organisation’s objectives.
Good practice with fundraising

Always plan
Effective fundraising is planned not rushed. This helps you to manage time and resources and fundraise before your needs become critical.
Think about how fundraising complements your charitable activities.

Research donors and funders
Knowing an individual is committed to a particular area can help you to gain their interest. Knowing what areas a funder will or will not fund will save time on wasted applications.

Follow grant application instructions
Find out what a funder actually wants to know and answer appropriately (see Community Impact Bucks Guide to Funding in the Voluntary Sector for specific tips on grant applications)

Communicate effectively
Telling donors about your work encouraging them to engage and give is fundamental to success.

Fundraising might include:
• Collecting donations.
• Applying for grants.
• Approaching businesses for sponsorship.
• Running a raffle or lottery.
• Hosting a fundraising event. Further tips on funding can be found in Community Impact Bucks good practice guides on funding and project planning.

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Earning income

Earned income is an important source of funding for the UK voluntary and community sector. Earning from trading on the open market or delivering services under contract now accounts for nearly half of the total income of the sector, outstripping all income from grants, gifts and donations. This represents a major change in how the sector is funded.

Earning income is sometimes referred to as ‘social enterprise’ activity.

It can be divided into ‘trading’ (selling on the open market) and ‘contracting’ (tendering to deliver goods and services under contract).

There are similar issues to consider whether contemplating earning from trading or contracting (for example, costing, pricing and marketing). The key difference with contracting, particularly if this is with a public sector agency, is the need to engage with a formal ‘procurement process’ (the steps involved in purchasing goods or services from an external provider). Of course, earning is not necessarily for everyone but, where viable, it can help organisations to avoid reliance on time limited funds such as grants and donations and, in the case of trading, provide unrestricted funds in contrast to ring fenced funds.

The following two sections discuss earning from trading and contracting in turn.
4. Trading

Income generated through trading goods or services on the open market can be a valuable source of unrestricted, independent income and a real contribution to supporting organisational independence and growth.

Trading involves considering what goods or services an organisation might charge for in order to generate income. This might include selling publications, providing training, renting space, running a transport scheme, offering crèche provision, and much more. Making a success of trading means addressing practical issues such as assessing the viability of ideas, business development and planning, recruiting suitably skilled staff and, depending on the scale or trading operation, deciding whether to keep activities in-house or create a separate trading subsidiary.

Developing a trading idea will almost certainly require some level of investment in resources to enable training for staff purchase of equipment or materials, and capital to finance the set-up period. Investing in developing new skills for trading can also be more widely beneficial, building capacity and creativity throughout an organisation.

Organisations typically finance this and other investment needed to begin trading through one-off grants, loans or organisational reserves.

Any organisation can trade. What varies are the scale, scope and nature of the product or service sold. The key to success is identifying a potential market and a product that people will purchase.

Trading can be small-scale (e.g. selling posters or education packs), or large scale (e.g. setting up a separate trading arm to manage a consultancy or training service); but whatever you choose, plan, pilot and evaluate before launching on a large-scale.
Don’t think of trading as a quick fix
Developing trading ideas can take from 6 months to several years depending on the type of activity. If you are considering trading you will need to have sufficient resource in place or be planning how to get them as part of the development phase.

Ensure your organisation wants to do it
Trading may challenge current accepted ways of doing things. Planning for trading may involve changing hearts and minds in addition to adopting new working practices.

Focus on charitable purpose
Earning from something that also contributes to the aims of your organisation benefits everyone. Unrelated trading is fine, but don’t get distracted from your core mission.

Build Capacity
Investment in skills capacity and equipment may be needed to develop a trading idea.

Seek professional advice
You may require specialist support in setting up a trading arm or registering for VAT. These are complicated issues
Community Impact Bucks can help to signpost you to key contacts that would be able to help in this area.

Trading might include:
- Running a shop or catering service.
- Training and mentoring.
- Consultancy, feasibility studies or research work.
- Hiring office or meeting space, or equipment.
- Office services, e.g. anything from photocopying to payroll.
- Selling skills, knowledge and expertise developed in-house.
- Launching a membership scheme.
5. Procurement and Contracting.

The delivery of services under contract is a growing area for VCOs, with many now recognised as key providers.

**Procurement**

is the purchase of goods and services from an external agency.

**Contracting**

is what follows when a bid or tender is successful; it is the process of entering into a legal agreement with a purchaser to provide goods or services. A major proportion of the voluntary and community sector’s contractual work is carried out on behalf of the public sector in the delivery of public services. Opportunities also exist to provide services under contract to private businesses or other VCOs and should be investigated. If you can find a potential purchaser, then contractual income can be a means of sustaining and expanding a service initially piloted using grants or donations.

A standard route to contracting is that a public sector agency will put out an ‘invitation to tender’ specifying what service it needs.

If a VCO wishes to offer its services it will need to prepare a formal offer known as a tender which describes how it will deliver those services and what it will charge. Some public sector agencies ask providers to complete a pre-qualification questionnaire before tendering. This is to assess technical and financial ability to provide the required services.

Delivering services under contract is potentially open to any VCO, but may be easier for some than others, depending on the work they do.

For example, social care and health provision have long been funded under contracts where as some work areas, like offender rehabilitation, are relatively new contractual areas for VCOs. The decision to enter into contracts needs to be informed by a clear understanding of organisational mission and objectives, capacity and skills to tender a bid, and consideration of whether delivering a service under contract will help meet beneficiary needs.
Good practice with Contracting.

The steps involved in trading also apply to contracting.

Other specific issues include:

Remember the public sector is not a specific entity
It is a series of subsectors including government departments and agencies, local authorities, clinical commissioning groups, colleges and others each with their own approach to procurement.

Develop good relationships with purchasers
It is essential to research public sector agencies when considering contract working. Building relationships with procurement officers will be invaluable in finding out about future potential tenders.

Alternatively signing up with the South East business portal will ensure that you will be alerted to all forthcoming council tenders.

If you are interested in doing business with Bucks County Council for example, register your organisation's details with the South East Business Portal as soon as possible. Only registered suppliers will be able to express interest and gain access to further information about the particular projects. Registration is simple and free.

For specific local opportunities you might also consider registering with the Buy in Bucks web site. For further specific information and advice on tender opportunities you can contact. info@communityimpactbucks.org.uk

Ensure you are happy with any contract
Don’t be pressurised into accepting unreasonable criteria or unacceptably low fees. Once you enter into a contract it may be difficult to get out of it.

Services delivered under contract might include:

- Meals on wheels.
- Care for the elderly.
- Health treatment or therapies.
- Transport schemes.
- Community childcare facilities.
- Recycling schemes.
6. Loans

Loans are not an income stream, but a financial enabling tool. They can help VCOs in various ways. Loans may be an option to improve cash-flow, to bridge gaps between receipt of grant payments, where a large sum of money is needed (e.g. to purchase a property), or to enable projects to move forward during the time taken to raise capital from more traditional fundraising methods. They can be particularly useful in situations where waiting while money is raised will mean an organisation misses a valuable opportunity.

Loans usually provide some flexibility in how the money is used (unlike grants which are tied to specific project outcomes). Furthermore, loans encourage business planning and thinking beyond the short-term (a frame of mind often encouraged by time-limited grant funding). Loans require a degree of financial discipline, but this can also be more widely beneficial for organisations. New contract or trading activity is often enabled by loan finance. This is because expanding to take on contractual work, developing trading initiatives, or simply increasing the scale and scope of an organisation’s work often requires investment (e.g. to train staff in new skills, or purchase equipment).

There has been a recent growth in the development of loan finance initiatives aimed at VCOs. Loans are now available from both High Street banks and providers who have emerged specifically to meet the needs of VCOs, such as Charity Bank Future builders England, as well as the Bucks Big Society Bank (see overleaf).

Such sector-specific lenders are good at assessing the risks of lending and investing. They invest after careful assessment and to VCOs that they believe will be able to use and manage loans effectively. Some lenders may offer support to help organisations prepare for a loan.

“Loans are not suitable for every organisation at all times. But, where conditions are right, they can have a tremendous positive impact!”
Good practice with loans

Don’t let the constitution be a barrier
You may need to amend your constitution or legal structure to allow your organisation to take out a loan.

Investigate and find the right loan provider.
In 2011 the Bucks Big Society Bank was formed which offers loans to Buckinghamshire VCOs of between £1,000 and £25,000 if they demonstrate a community benefit to Buckinghamshire. Further details and an application form can be found on the Bucks Community Foundation website: www.thebucksfoundation.org.uk

The Community Development Finance Association also provides information on loans and finance see www.cdfa.org.uk for further details.

Ensure sound financial systems are in place
Loans require strong financial disciplines and the ability to budget and plan ahead to ensure repayment requirements are met.

Plan for repayment
Loans are suitable if you will soon have access to income from which the loan can be repaid. This may come from trading or contractual work or from major fundraising

Uses to which VCOs have put loans include:
- Managing cash-flows and grant income cycles.
- Managing lead times between producing goods and services, selling these goods and services and receiving cash for sales.
- Kick-starting new ventures or projects.
- Organisational growth and development.
- Purchasing equipment.
- Renovating or fitting-out a building.
- Purchasing property.
### Check list for loan finance decision making

1. **Have you prepared a business plan?**

2. **Will the project make a surplus after loan repayments?**

3. **Will the project allow more beneficiaries to be helped?**

4. **Does your governing document give the power to borrow and pledge assets?**

5. **If no to 4, have you consulted the Charity Commission, or a solicitor, and agreed your VCO can undertake borrowing?**

6. **Are staff happy with the idea of using loan finance?**

7. **Does your VCO have the expertise to manage a loan?**

8. **Are trustees satisfied that repayments can be made?**

9. **Have you identified appropriate lenders?**

10. **If the lender needs a charge on any of your organisations assets as security are the Trustees aware of this?**

11. **Do you know whether any information is required throughout the term of the loan?**

12. **Have trustees taken specialist advice, where necessary, on the terms of the loan?**
And finally...

Remember, sustainability is different for each organisation. There are no magic answers to becoming sustainable, no simple solutions and no pots of gold – every group and organisation is unique.

Although there are no guarantees of survival, applying the principles of sustainable funding – planning effectively, avoiding reliance on one source of funding, building organisational skills and capacity, and choosing income streams that are appropriate for the work a VCO does and the goals it wants to achieve – goes a long way towards it.

Sustainable funding is about exploring all the available options and working out which are the right ones for your organisation.

7. Further Resources

**Charity Commission for England and Wales** – provides free guidance on all matters relating to improving charity financial management. See [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

**Community Accountancy Self Help (CASH)** – provides excellent online fact-sheets explaining how to set up and implement key financial procedures. Financial advice and training is also available. See [www.cash-online.org.uk](http://www.cash-online.org.uk)

**Community Development Finance Association (cdfa)** – website carries regular updates on the latest information from the CDFI sector including a full member directory of organisations that provide loan finance. See [www.cdfa.org.uk](http://www.cdfa.org.uk)

**Compact** – guidance laying down terms for engagement between the voluntary sector and government. See [www.thecompact.org.uk](http://www.thecompact.org.uk)

**Institute of Fundraising** – professional and membership body for fundraisers and fundraising organisations in the UK. It provides information and advice on fundraising. See [www.institute-of-fundraising.org.uk](http://www.institute-of-fundraising.org.uk)
Office of Government Commerce – website provides useful information on contracting including a step-by-step guide through the public sector procurement process.

See www.supply2.gov.uk as well as public sector tender information that can be found on the south east business portal.

NCVO Sustainable Funding Project – helps VCOs to explore and exploit the full range of funding and financing options. This project supported by the Big Lottery has produced a number of valuable supporting documents and information packs as well as being able to offer consultancy advice. See www.ncvo-vol.org.uk/sfp

Community Impact Bucks - has produced a number of guides on all aspects of running a voluntary or community organisation.

Guides available include:

- Guide to Project Planning.
- Guide to Funding.
- Good Practice Guide to Involving Volunteers.
- Guide to Sustainable Funding and Financing Options.

All these guides can be downloaded from the Community Impact Bucks website www.communityimpactbucks.org.uk or contact: info@communityimpactbucks.org.uk