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Islington Children and Young People's Voluntary Sector Forum

How to create sustainable funding?

The importance of accessing diversified and sustainable finance

All organisations need money. There may be a number of reasons for this. You may be starting up, managing dips in cash availability, expanding, starting a new project, buying equipment, furniture or property etc.

Even successful organisations sometimes need access to finance address cashflow problems. It is better to think about the different funding scenarios and options before you face difficulties. Funders of any type do not like funding organisations at short notice or in emergencies.

Moreover, many grant making trusts now ask grant applicants to communicate their "Exit" strategy. By this they mean that they want the charity to explain how it will survive financially after the grant applied for has been exhausted. Charities with diversified income streams are often regarded more favourably.

I. Getting started

1.1 Initial things to think about

In order to access finance (whether it is for investment or for covering your recurring costs) you need to know:

- **Why** you need it (working capital, development capital etc.– See appendix)
- **How** much you need
- **When** you need it
- **What** type of finance you need (grant, loan, investment etc.– See section III)
- **How** you will access it (See section III)

Table 1: The four pillars of finance - what you need to consider

WHY?	HOW MUCH & BY WHEN?	WHAT?	HOW?
Start-up capital? Working capital? Development capital? Purchase capital?	Knowing how much to ask for from different types of funder Plan both for the short-term and long-term to ensure sustainability	Investments? Contracts? Trading /sales? Loans? Grant? Gifts? Membership fees? Corporate sponsorship?	Ensure you have the right legal structure Map potential funders / clients / investors Develop a funding strategy Develop a business plan, with financial forecasts Check the requirements (information, governance etc.)

You will need to convince the funders/ investors that you deserve their money, that the organisation/ project is worth pursuing and that the funding will generate a financial and/or a social return (depending on the source of money).

Usually this information is provided in the form of a business plan and financial or cashflow forecasts.

A business plan also forms a good basis for the preparation of grant funding applications. It will help you start planning on:

- Where you intend to source the finance
- The appropriateness of those sources of finance to your organisation/ project
- Your longer term requirements to allow you to meet your strategic needs
- Your exit strategy is (for instance how you will repay (or "service") a loan, or remain financially sustainable after the grant has ended)

Choosing to access funding and finance to grow should be the last part of a careful process whereby the four pillars of sustainable growth (**WHY, WHEN, WHAT and HOW**) have already been addressed.

Your organisation must be clear on what they are ready to accept, and what they are not as flexible with. The choice of a funding 'partner' also involves more than the money e.g. contacts, networks, business acumen, expertise and the fit with values. It can, however, bring more constraints as well: some might want to attend your board meetings, or get regular reports for instance.

Accessing finance takes time and resources so you must make sure that you manage the strain on capacity and staff.

1.2 Developing a funding strategy

What is a funding strategy and why is it important?

A funding strategy is a plan showing how your organisation will fund or finance its future work. Thinking clearly about what level of money you need and where it will come from is key to the survival of any organisation. Formulating this into a funding strategy can be a very helpful process, and will help you develop a plan of action regarding when and what funding will best suit your organisation.

Writing your business plan will help you identify what financial resources you need, particularly through your financial forecasts. A funding strategy is essentially a plan outlining how you intend to raise or generate the money to fund those requirements. It is not just about getting funding from external sources – it can also include your own financial investment and money generated by your organisation itself (often called self-generated income).

How does a diversified funding strategy work?

Your funding strategy should be developed alongside your business plan and is likely to affect how you go about doing your business. It will help you understand how much money you will need and which sources you could draw from at each stage of your organisation's development. This will help ensure that you are fully aware of how to be financially viable in the long term.

Some charities or social enterprises become over-reliant on grant funding, or on a single customer, for example, and this is a risky strategy. This means that you can be adversely affected if any one of the funding or finance sources ceases. A diversified funding strategy will help you address such challenges by providing options if the grant or customer falls through. It will give you a better understanding of how to develop and grow your organisation over time. It may also help you access other sources of finance where needed and help you recognise when your organisation should look into them.

Legal structures can affect your ability to access types of funding

Keep in mind that your legal structure will play a key role in determining which of the above you have access to. Remember that not all legal structures can access all the options above.

Investment income for instance will only be possible if you have a social enterprise and it is a company limited by shares (CLS), a commercial CIC, or a co-operative (investment will come from your members).

Therefore in practice you may find that even though there are a number of funding/finance options available to you, you will probably need to focus on a few of the options above. This is also true due to other issues such as the time and resources required to source new kinds of finance.

TOP TIPS - CONTENT OF A FUNDING STRATEGY

- What your organisation sets out to do – your aims, objectives, your mission statement in line with your Business Plan
- What your realistic funding needs and priorities are over a defined period in order to be able to deliver your aims and objectives
- An outline of how you intend to raise the money required, including financial targets, timescales and designated responsibilities
- How you are working towards longer-term financial sustainability
- Contingency plans in order to manage financial risks

(Source : Volunteer Centre Tower Hamlet)

III. Different sources of finance

Different options to consider

The money you need can be obtained in a number of different ways:

- Self generated income
- Borrowed
- Obtain by selling a share in organisation
- Being granted the money
- Being given the money

3.1 Self generated income

Self-generated income comes from selling services or products through:

- Trading (selling directly to the end user) – e.g. selling a training to professionals working with young people, charging a fee for a one hour dance class, hiring out the premises when they are not used to the public or to a private organisation etc.
- Commissioning and contracting (see below)
- Membership fees: offering a range of services (newsletter, discounted rate to access some training, etc.) for a fixed amount per year.

A - Trading as a charity

Undertaking trading activity is a complex issue for charities. It can have implications on the charity's charitable status and may subject it to corporation tax. This guide explains what is and isn't considered trading for tax purposes. It will then look at how to establish trading activities and some of the major issues to consider before starting.

<u>Primary Purpose Trading:</u>

Primary purpose trading is when a charity conducts a trade in the course of carrying out its main charitable objects. Such trading does not endanger the charity's charitable status and there are no limitations on how much primary purpose trading a charity can undertake. The profits from primary purpose trading must however be reinvested in the organisation for the benefit of its charitable purposes. Otherwise the profits will be subject to taxation.

<u>Secondary Purpose Trading:</u>

Where a charity charges for services or products that are apart from (not in furtherance of) its primary purpose, this is considered to be secondary purpose trading. For example, a religious charity-selling non-religious books would find that the profits from these activities would be secondary purpose trading, the amount of trading is severely limited and any surplus is also subject to taxation.

<u>Trading undertaken mainly by the charity's beneficiaries:</u>

Where trading is mainly carried out by beneficiaries of the charity the profits of such trading are not subject to taxation. The trade itself need not be a primary purpose trade and the beneficiaries can be paid or unpaid.

There are a number of other transactions that many charities undertake which are not considered to be trading for tax purposes. These must take place within certain parameters and in each case the profits have to be reinvested for charitable purposes. Examples of some of these are set out below:

- **Sale of donated goods**
- **Commissioned research**
- **Property rental:** Rental income from property is not considered to be taxable. However, if services additional to the use of the property are provided, such as food or caretaking, these may be taxable.
- **Investment income**
- **Corporate sponsorship:** Acknowledgement of sponsorship is not considered to be trading. However, care must be taken because promotion of the sponsor on publicity and marketing material will be considered as supply of advertising services and therefore taxable. The same applies to company donations, providing the charity does not provide goods or services in return.
- **Membership**
- **Lotteries**
- **Small-scale trading exemption:** Profits from trades are exempt if the annual turnover from the trading is either below:
  - £5,000 or the lower of
  - £50,000 and
  - 25% of the charities total incoming resources

B - Commissioning and contracting

Commissioning and contracting is the main source of self generated income for charities and VCOs. Contracts and Service Level Agreements (SLAs) are formal arrangements to provide funding in return for the delivery of a service or services. The public sector is increasingly turning to voluntary and community organisations and social enterprises to deliver services under contract. Most contracts are awarded through a competitive tendering process (procurement), whereas SLAs tend to be less bureaucratic and competitive and are generally used for smaller scale service delivery.

You can find out about tender opportunities through a number of public sector websites to which you can sign up and from which you will receive regular updates about tendering opportunities in your sector. These include:

- **Supply2gov,** www.supply2.gov.uk
- **Competefor,** www.competefor.com
- **Public Tenders,** www.publictenders.net
- **(European) Tenders Electronic Daily,** www.ted.europa.eu
- www.pasa.nhs.uk
- www.supplychain.nhs.uk
- www.sid4health.nhs.uk
- **Your local council website**
- **General tender opportunities:**
    - www.BiPcontracts.com

- www.tenders.com
- www.tendersdirect.co.uk

3.2 Borrowing money

Loan finance is only an option if your organisation has, or will have, the capability of repaying the loan.

Different types of loans are:

- Bridging loans: to support your organisation when there is a delay in receiving grant funding or other identified income streams. This is normally quite expensive
- Start-up capital loans: to support the launch of the organisation until an income stream can be generated
- Working capital loan: to manage cash fluctuations
- Acquisition loans: to facilitate purchase of equipment, property or acquire new businesses

Apart from the mainstream banks, there are many "social lenders" who are socially minded and will have a more flexible approach towards charities or social enterprises:

- Charity Bank - www.charitybank.org
- Triodos Bank - www.triodos.uk
- Unity Trust Bank - www.unity.uk.com
- The Co-Operative Bank - www.co-operativebank.co.uk
- The Social Enterprise Loan Fund – www.tself.org.uk
- Big Issue Invest – www.bigissueinvest.co.uk
- London Rebuilding Society - www.londonrebuilding.com
- GLE One London – www.gle.co.uk
- Various local and regional community lenders (Community Development Finance Institutions - CDFI's) can be accessed via the umbrella body's web site: Community Development Finance Association (www.cdfa.org.uk)

There are a number of lenders who have very specific criteria, for instance that at least 50% of the organisation's activity is used to deliver statutory contracts, such as Futurebuilders (www.futurebuilders-england.org.uk). The Adventure Capital Fund (ACF) will also only lend to community based projects (www.acf.org.uk). Both organisations are now part of the Social Investment Business (www.socialinvestmentbusiness.org).

3.3 Selling a share in your organisation (investment)

If your organisation is a co-operative, company limited by shares, or a CIC limited by shares you can sell shares in your organisation. This can take the form of a single individual or organisation taking a stake in your social enterprise, or it could be a community share offer when you offer shares to larger numbers of investors. Most of the time, those investors would be members of the community and wouldn't look for financial return, but rather be interested in social return. This option can also be developed for legal structures without a share structure but capable of issuing bonds.

For more information visit the publication section in the DTA website (recently renamed Locality after its merger with bassac):
www.dta.org.uk/resources/publications

If you don't have the right to issue shares but would like to raise community funding, you might be interested in looking at "crowd funding" models. You might want to visit one of the key intermediary and backers of this model: Buzzbank www.buzzbnk.org

3.4 Being granted the money to create social change or impact

- Through grant funding
- Through corporate sponsorship

A - Grant funding:

Identify grants that you might be eligible for:

- www.fundingcentral.org.uk
- www.trustfunding.org.uk
- www.funderfinder.org.uk
- www.lotteryfunding.org.uk
- www.access-funds.co.uk
- www.governmentfunding.org.uk
- www.grantfinder.co.uk
- www.fundraising.co.uk
- www.trustfunding.org.uk
- www.companygiving.org.uk (corporate donations to charitable work, generally distributed in the form of grants)
- www.grantsonline.org.uk
- www.J4b.co.uk
- www.grantsnet.org.uk
- Your local CVS

Major grant making trusts:

- www.esmeefairbairn.org.uk
- www.henrysmithcharity.org.uk
- www.biglotteryfund.org.uk
- www.lloydstsbfoundations.org.uk
- http://www.citybridgetrust.org.uk/CityBridgeTrust/
- http://www.tudortrust.org.uk/HowTudorfunds/WhatTudorfunds/tabid/67/Default.aspx

- http://www.trustforlondon.org.uk/
- http://www.jackpetcheyfoundation.org.uk
- http://www.awardsforall.org.uk
- http://www.cdf.org.uk/web/guest/funding

For general information : http://www.institute-of-fundraising.org.uk/

Building a funding action plan:

It is important to build a funding action plan in order to:
- Define the scope of potential grants you can access and check carefully if you are eligible for.
- Determine which grants the community centre should go for. Remember it is a time-consuming process so you might want to prioritise the grants that you think you have more chances to get
- Record the deadlines for applications: some grant-making trusts accept applications all year round. Others have deadlines so record them carefully!
- Manage the process: Who is taking responsibility for this? When should is be completed? Who can help? What are the resources available, etc.

Below is an example of a funding action plan.

Funder	Message	Channels / process	Actions to undertake	Management process		
				Who? & How?	By When?	Result
E.g. grant making trust, large donors, corporate, etc.	*E.g. Fulfill their social objectives / Answer to a specific need, etc.*	*E.g. Formal grant application process, sales process - also includes long-term relationship building, etc.*	*E.g. send regular newsletter, direct mails, face-to-face meeting, etc.*			

B - Corporate support:

As part of their CSR policies, companies are keen to support some charities and social enterprises. Some sectors are particularly keen (bank, telecommunication /media, etc.) and they can bring you some different type of support (financial as well as "skills" support through their volunteers).
Local businesses, even if they have less financial means, can still be very eager to contribute to the benefit of the community.

If you are trying to get corporate support:

- **Map the local businesses**
- **Access local businesses through:**
    - Chambers of Commerce
    - Rotary clubs
    - Islington council's Economic Development Team (EDT) might be able to help with access to businesses registered with them
    - Or other business associations or networks (for instance if there is a BID- Business Improvement district nearby)
- **Think who else is in your network?** Who can you reach beyond the local area?
- **Do your research** which company has best fit with your organisation?
- **Be strategic** and clear about your exit strategy before you get to it
- **What's in it for them?** Get a proposal ready for them. What you are offering them? Think about different "packaged services" you can provide
- **You might want to get support from brokers, organisations who are working the field:**
    - Business in the Community http://www.bitc.org.uk/
    - Arts and Business http://artsandbusiness.org.uk/
    - London Benchmarking http://www.lbg-online.net/
    - Forum for the Future http://www.forumforthefuture.org/
    - Law works www.lawworks.co.uk
    - In-kind Direct www.inkinddirect.org.uk

3.5 Being given the money

It is also possible that the resources that you need can be given / donated to you so reducing the amount of cash that you need through individual donations, events, raffles, jumble sales, legacies, etc

Larger direct fundraising sources include options such as High Net Worth Individuals (HNWI or Large Donors), legacies or endowments.

Remember

- You need to plan for the resources (time, skills and money) that accessing each type of funding will require

- Each type of funding requires different skills. Applying for grants is quite different from negotiating loans. Do not let that stop you exploring all possibilities as the funding that you have previously succeeded in getting may not be appropriate for what you want to do now

- There are also numerous sources of support that you can access for each type of funding you are seeking. These could be sub-contracting the work, receiving training, being mentored etc. You could consider buying in the skills by using freelancers or consultants as the skills requirement may only be for a short period of time. Your strategy should take into consideration all of these factors as you will need the funds to create or buy these skills and resources on a one-off or regular basis

- Make sure to stay focused on your core activities even while raising funds. Many managers can get so involved by the search for external funding that this can have a negative impact on their organisation’s ability to generate funds from sales or contracts. The organization still needs someone to drive it forward, so getting support from your team or partners can make a big difference. Moreover, it is crucial that the search for funding does not drive you away from your mission

Checklist: Are you finance-ready?

☐ Do you have a clear idea of what you need the funding for?

☐ Can you explain how this will benefit the organisation?

☐ Do you have good financial controls and managements systems in place?

☐ Do you have regular management reporting?

☐ Can you show a realistic, sustainable strategy and 3-5 year business plan?

☐ Do you have robust forecasts and budgets?

☐ Do you have a clear idea of what type of funding is appropriate for you?

☐ Do you know the quantum, payback period (if any) and risks involved?

☐ Do you understand the social and financial outcomes?

APPENDIX: TYPE OF FINANCE

Those that have the money use a language that can be confusing. So it is best to be able to understand the terminology that they use. The most common terms when asking for finance are:

- Start up capital
- Development capital
- Working capital
- Capital purchase

'Capital' usually means money.

Start-up capital / development capital: *the money required to start something up.*
When applying for start-up or development capital you will also want an element of working capital as it may be some time before your organisation / project is able to generate sufficient surpluses to cover all your expenditure.

Working capital: *the money required to keep you going even when profitable.*
This is to ensure that you are able to meet on going expenditure in case your income is delayed or you will not be paid until after a project has been delivered. Most organisations require some form of working capital throughout their lives.

Capital expenditure: *the money you need to buy expensive/ long-term usage items.*
It may be an element of the start up/ development cash requirement. Otherwise it relates to purchases where you need additional cash for expensive items that are not regular expenditure for your enterprise (e.g. new office desks or a printing machine).

Each type of cash input is what an enterprise might require at different stages in its development. However, capital expenditure means the money required to acquire items that are:

- For your own use
- Will last you more than 12 months
- Non-recurring (you do not buy them all the time)
- Are high value items (i.e. expensive)

The terms used are better explained below where examples of the types of expenditure relating to each type are categorised.

Table 2: Different Types of Expenditure

Start up/ Development Capital *One off or non-recurring expenditure*	**Working capital** *Recurring expenditure*	**Capital purchase** *One-off/ non-recurring high value expenditure*
Rent deposit	Salaries & employee costs (PAYE, training, etc)	Web site
Rent advance	Rent & rates	Buildings/ property
Initial recruitment costs	Utilities	IT equipment
Equipment purchase	Phone & internet charges	Machinery
Property purchase	Insurance	Motor vehicles
Web site	Marketing	Fixtures & fittings
Furniture	Print, postage, stationery	
Fixtures & fittings	Stock purchases	
Legal costs associated with start-up	Repairs	

You may also see terms such as Revenue Finance and Asset Finance. These are different terms to describe working and capital purchase expenditure, i.e.
Revenue finance: money to pay for ongoing expenses such as salaries, rent etc.
Asset finance: money to purchase fixed assets