Devon Voluntary Action

A Devon-wide partnership building vibrant, healthy communities

Full Guide:

Income Generation and Managing your Money

A Guide for Community and Voluntary Organisations

The voluntary sector has seen a massive change over the last decade, with an increased demand on services and reduction in resources. We're expected to do 'more with less' and have to react to quickly, in order to deal with increasing change while continuing to make a real, long-term difference for the communities we serve.

It has never been so important for voluntary groups to have a well balanced array of income generation, appropriate to the group's objectives. Different income types need to be accessed and managed in different ways and involve different relationships with the funder or purchaser. The advantages of one income stream over another lies largely with the group's aims and objectives.

National Council of Voluntary Organisations (NCVO) has created an income spectrum guide designed to help you find the right mix of funding by looking at your own income streams and the risks of these running out.
http://www.ncvo.org.uk/images/documents/practical_support/funding/sustainable-funding/NCVO%20Income%20Spectrum.pdf

and a "Sun Tool"
http://www.ncvo.org.uk/images/documents/practical_support/funding/sustainable-funding/Sustainable%20Sun%20Tool.pdf

Financial Strategy

To get the most out of your financial resources and achieve sustainability you'll need to successfully manage all your funding and financing sources in an overarching strategy for your group.

Many groups manage income from a number of different funding and finance sources - from donations, grants, contracts and income generated from trading.

A financial strategy enables your group to assess your financial needs and the sources of support required to meet your objectives and fulfil the group mission, whilst also planning for continued growth to enable stability.

Your financial strategy will derive from your mission. So the first step is to clearly define why you exist and you plan to achieve your mission before preparing any budgets.

A mission statement is a brief declaration of a group's purpose and values - the reason why it exists. Your mission should be a long-term statement of intent deriving from the vision that originally inspired the group to form. It shouldn't be a detailed list of what you will do, how you'll do it and when.

Focusing on your mission will help you move your focus from what you do, to what you want to achieve. Once your mission is clear you'll be able to set strategic goals (both medium and long term) that set the direction of your group.

With your direction clear you can create a costed, timed and detailed work plan that outlines the operational activities necessary to achieve each goal down to the day to day activities. This will ensure that your mission and financial goals are complementary to each other rather than in competition.

Developing a Plan

Sound planning underpins all income generation strategies. Your finance function - whether that is a team or an individual - can add value to both planning and management. The key roles are:

- Providers of information for decision-making
- Business management.

Financial managers/treasurers will need to assess what information they have, particularly on costs and income projections to be able to control or plan the future.

The financial management role of a voluntary group trustee board is quite different to a company. The three main financial management functions of the board are financial monitoring, procedures and management. Most voluntary groups are financially accountable to a far greater number of stakeholders than commercial groups being funded by a combination of tax concessions and money from the general public, local government and charitable trusts.

Where to start?

There are many different methods of moving through the planning process but broadly it can be seen as a 3 part continuum:

1. Beginning with the defining of a mission and building of a vision.
2. Moving on through defining and setting objectives.
3. Developing and writing annual plans and budgets, arriving at the final destination – the specifics of product/service delivery and the implementation of the planning process.

Planning takes a group through three important questions:

1. What are you here for?
2. What should you do?
3. How do you actually make that happen?

No matter what their size, all groups need to plan. Doing so will highlight both the opportunities and challenges it faces. This will not only strengthen the group, but will also enable it to deliver more effectively to meet the needs of its beneficiaries.

Planning can be simple and straightforward. It can be a creative process that brings demonstrable benefits. There is a direct link between effective planning and long-term sustainability. As such, it is the first step towards developing a sustainable income base.

Financial sustainability begins not with funding, but with planning – before groups start thinking about money, they need to decide exactly what their mission, aims and goals are and plan how they will achieve these.
Only once groups know what they want to achieve, and have planned accordingly, are they in a position to assess which income streams are appropriate for them and begin to pursue them:

- All groups need to plan no matter what their size.
- Planning highlights opportunities as well as challenges.
- Planning allows groups to approach income generation strategically, and enables them to meet the needs of their beneficiaries more effectively.
- Strategic planning is a key driver for sustained group effectiveness.

A sound, evidence-based plan can:

- Improve your chances of gaining the funding you need, by demonstrating to funders and commissioners that you can deliver your overall aims within identified resources.
- Break down your aims into manageable chunks, allowing you to work out the step-by-step processes and actions that will enable you to achieve your desired outcomes. Achieving your overall aim can be much less daunting when broken down into manageable chunks.
- Get everyone pulling in the same direction, with a clear sense of their own role in achieving your group's overall aims. Understanding the importance of their particular tasks helps people to stay focused and fully engaged with the challenges they face.
- Help each team member to manage their own time and resources to best effect.

For more information on planning, download the *'Developing a Plan'* information sheet available from www.devonva.org/information_and_guidance or you can contact us; details are at the end of this information sheet.

Income generation can be divided in to the following headings:

Gifts and Donations

Gifts includes: community fundraising events, one off acts of philanthropy, regular individual donations (and Gift Aid from them), corporate support, crowd-funding, and increasingly, legacies. Some philanthropic giving and legacies may come with restrictions or requests for specified uses of the donation; however in most cases this income is unrestricted and may be used to achieve the group's aims, as the group sees fit.

From a business planning point of view, it isn't possible to predict the income from legacies and one off donations; you can more easily estimate the income from regular donations and fundraising events.

DeVA can provide help and advice on registering for Gift Aid to make the most of your donations and developing a legacy strategy. Contact details are at the end of this information sheet.

Grants

Grants for specific activities are normally applied for through a process that meets criteria set by the funder, be it charity, trust, foundation, company or statutory authority.

Grants offer the opportunity to undertake activity which cannot generate enough income to cover its own costs. Though a few funders will give grants to groups for unrestricted purposes, most grant funding is restricted to delivering specified outputs or agreed outcomes.

Grants are an important form of funding that can enable many voluntary groups to carry out their purpose. Grants are ideal for supporting research and development, building capacity or new activity which, over time, could become self-financing. However, finding and applying for grants is a time consuming business and many grants come with rules attached that require careful monitoring or reporting on progress.

Each funder will have their own criteria, priorities and processes which means every application has to be tailored. Once you've made your application it takes time to get a decision – on average from two to six months depending on the funder and scale of grant requested.

Grants also present a number of challenges to voluntary groups:

- Lots of grant funding is short-term – requiring an exit strategy.
- Many funders have specific priorities for types of activity they want to fund – and this doesn't always correspond with what you want to do.
- Grant funding is often oversubscribed. There are also more groups looking for funding.
- Funders may have terms and conditions that require you to manage your group in a particular way. For example, you may need to change financial procedures and may have to introduce a system to measure outcomes.

With over 8,800 of grant giving bodies in the UK, working out who to apply can be a bit daunting. **DeVA can help you identify the most relevant funders and advise on making an application contact details are at the end of this information sheet.**

Trading/the Open Market

Many voluntary groups look to develop income through some form of trading or social enterprise activity, for example through selling products or services to customers, but not as part of a structured contract. Trading might take the form of retail or providing training. Trading can be purely to generate funds for the charity. Charities are legally permitted to trade, within some limits. While charities may trade more or less freely in pursuit of their charitable objectives, there are restrictions on engaging in trades the objective of which is to generate funds for the charity. In particular, charities may not engage in such commercially-oriented trades where a significant risk to their assets would be involved.

More information about trading is available on the Charity Commission website:
http://www.charitycommission.gov.uk/detailed-guidance/fundraising/trustees-trading-and-tax-how-charities-may-lawfully-trade-cc35/#a

Contracts/the Structured Market

Contracting involves earning income from payment for goods and services delivered according to the terms set out in a contract between a group and a purchaser. Contracts specify service requirements and make clear what and how a service is to be delivered, and for what payment. Contracting is particularly suitable for groups involved in delivery of public service work - health, social care, education etc. where a service is purchased directly by a local council, government department or other statutory authority.

The benefits of contracting are:

- **Length:** due to the investment needed and the impact they have, contracts tend to be longer than some grants.
- **Legally binding:** for both parties, meaning that there is a legal obligation on the funder as well as the provider of services.
- **Scale and demand:** the vast majority of government contracting is at the local level and the sums involved are significant.
- **Negotiation:** some contracts are negotiable, which means groups should feel confident about challenging unfavourable terms and conditions.
- **Transparency:** by law, contracts should be paid promptly and be awarded transparently.
- **Involvement:** contracts enable groups to improve the design and delivery of services to beneficiaries.
- **Partnership:** chances to collaborate and work with other groups to deliver services.

It is useful to understand these key terms:

- **Commissioning** means the entire cycle of assessing the needs of people in a local area: designing services and then securing them.
- **Procurement** covers the specific activities within the commissioning cycle that focus on the process of buying services, from the initial advertising through to the final contract arrangements.
- A **tender** is a written bid outlining a supplier's desire, capacity and plan to deliver a piece of work, service or supplies. Exact contents will be determined by the requirements outlined in the service specification and must demonstrate how a supplier will meet these requirements.
- A **PQQ** Pre-Qualification Questionnaire is used to select a shortlist of bidders out of those who expressed an interest.

DeVA can provide help and advice on bidding for contracts including support for completing a PQQ document. Contact details are at the end of this information sheet.

Social investment/Venture Philanthropy

Social investment or loan finance is a relatively new tool for the voluntary sector. Although it's not strictly an income source, loans can be used to help your group to grow, develop or manage cash flow effectively. Social investment is money that is given with the condition of both a social outcome and financial return. Social investment can take many forms, including loans, overdrafts, investment and bonds.

Your group might need an injection of finance in order to develop a more sustainable funding stream. It isn't always practical to raise funds for this – perhaps it will take too long, or perhaps it isn't a project that appeals to donors. If you're involved in contracting then you might need to bridge the gap between delivery of a service and payment. In these situations social investment may provide a solution.

Social investment is not a replacement for grants, nor is it suitable for everyone, but it is an option that many groups have found invaluable. Before considering social investment, you should be at a stage where robust financial systems are in place that will allow you to manage such investment. Accurate income projections are particularly important. You may wish to consider schemes that provide capacity-building support to help you manage a loan. It's important to understand that social investment is not income – but it is enabling finance that can help you to develop appropriate income streams to drive development at the appropriate time.

Find more information on this topic at Social Investment Made Simple on KnowHow NonProfit.

DeVA can provide help and advice on how to support your group to evolve and adapt, to stay on top of budgets and track your progress. This in turn enables groups to build on strengths, address weaknesses and manage risk. Contact us at support@devonva.org or call 0845 6099901.