

# Fundraising in difficult times

*In May, Richard Gutch, an Associate at Prospectus, interviewed nine charities that receive significant amounts of public sector funding (ranging from 37% (Shelter) to 99% (United Response)) to find out how they were planning to respond to the cutbacks in public expenditure and what their plans are for raising more voluntary income. In each case he spoke to the Director of Fundraising or the nearest equivalent. Eight of the charities were national, ranging from Action for Children with a turnover of £201m to Carers UK (£3m) and one, Cambridge House in Southwark, London, was local (turnover £2.6m).*

‘When do you stop being a Government contractor and start being a charity?’ may seem a surprising question for some of the biggest charities in the country to be considering, but it is one they will be considering more and more over the coming months. The steady squeeze of their statutory income which some have been experiencing in recent years, coupled with the prospect of the biggest cutbacks in public expenditure since the second world war (now likely to be £90bn over the next five years) is leading to a lot of heart searching.

For many of the charities I interviewed, fundraising has been a peripheral activity. One person described their charity as like a branch of the NHS and another said it was a business with a charity tagged on. Rapid growth in contract income (from £50m to £173m in 10 years in the case of Action for Children) and an ability to generate surpluses from contracts, coupled with the view from some that there is something fundamentally wrong about raising voluntary income to fund services for vulnerable people, has meant that fundraising has only had a minor part to play compared with statutory income. United Response (1%), National Autistic Society (4%) and Scope, Leonard Cheshire Disability and Action for Children (10%) only get a small (but nevertheless important) part of their overall income from fundraising; the picture is the same at the local level for many charities like Cambridge House in south London, who only get about 1% of their income from voluntary fundraising.

Over the sector as a whole, forty thousand charities get funding from the public sector, which now represents 36% of the sector’s overall income, just behind individual giving (37%). In many cases, such as Shelter, there is much more of a spread of different sources of income; in Shelter’s case, 37% of their income is from the public sector and 50% from voluntary income.

## Strategic dilemmas

Those who are very dependent on public sector income, but are looking to start generating more voluntary income, are faced with two strategic challenges. First, how can they maintain services when faced with cutbacks on this scale (and what should the role of voluntary income be in this?) Second, are they going to be able to generate more voluntary income, when

they may have little track record and are going to be operating in an increasingly competitive and depressed market?

One thing that is clear is that no one is approaching these dilemmas with the simplistic notion that voluntary income should simply replace statutory income. The approach is much more nuanced, although many interviewees accepted that we are entering uncharted waters as far as public opinion is concerned. The traditional mantra that public donations should not be used to fund services that the state should be paying for may not sound so convincing when there is general public acceptance that there is no money left.

### Response to cuts

Most people's assessment of what is likely to happen is as follows:

- Statutory services are likely to continue to be squeezed by as much as 10% per year; there will be no allowance for inflation, eligibility criteria will be narrowed and service specifications will be pared down to the essentials
- Placements and referrals e.g. in the National Autistic Society's schools will be reduced leading to more voids
- Non-statutory services may be cut altogether
- Campaigning work is unlikely to be funded e.g. Carers UK campaigns about carers' benefits

Charities' approaches to dealing with these cutbacks are likely to include:

- Efficiency savings through negotiating smarter commissioning arrangements e.g. Cambridge House saving on management overheads through less frequent reporting or combining two similar contracts into one
- Restructuring services e.g. United Response seeking to make greater use of assistive technology in high dependency units
- Collaboration e.g. KIDS looking for organisations to work with to achieve economies of scale and increased impact
- Sharing the costs of services e.g. KIDS asking parents to make financial contributions
- Using voluntary income to provide added value to enhance users' experience of services funded primarily with statutory sector funding e.g. Leonard Cheshire Disability providing extra equipment, physiotherapy and increased carer contact or Cambridge House widening eligibility for an advocacy service
- Using voluntary income to develop innovatory services like Leonard Cheshire Disability's IT training and disabled entrepreneurs projects
- Campaigning to prevent closures and, if necessary, keeping a service going for a short period to rally support
- Using voluntary income to pay for non-statutory services like helplines, information and advocacy services which may have received public sector funding in the past
- Using voluntary income to restructure and improve services e.g. Scope's plans to combine philanthropic support and social investment to provide new accommodation for independent living

- Continuing to use voluntary income for campaigning.

But what they are not likely to do, except for a short term emergency, is provide replacement funding or even ongoing subsidy for a statutory service.

### Approaches to fundraising

The second strategic issue for many of these charities is whether they are going to be successful in generating more voluntary income. In some cases they have under-developed databases, with little tie up between their local services and potential local supporters, and under-resourced staff teams. However, for many of them, the prospects are good, because they have so much going for them in terms of brand awareness and product offers.

Some of the areas seen as having the most potential are major gifts from new philanthropists and corporate sponsorships (where those charities with strong brands are at a particular advantage); and community fundraising where charities have lots of local services and projects. Action for Children secure 33% of their legacies from people first approached through community fundraising. A particular need for some of the charities like Leonard Cheshire Disability is to integrate their different database systems more fully so they can develop links between supporters and local services in their area.

Most of the charities are looking at how the new social media can best be used in fundraising. Shelter have had some great successes in developing their databases through new products like 'House Bling' where people could decorate the outside of their house with Christmas bling using Google Streetview; they are now running 'Strip for Shelter' where people can decorate their house with their World Cup football team strip. The challenge is then how to convert these people into becoming supporters.

United Response ran their 'Every Vote Counts' campaign before the election, using Facebook, and Action for Children won a Golden Twitter award for their campaign around neglected children, which even attracted a twitter from Stephen Fry; again, for fundraisers, the issue is how to convert the social buzz created into actual donations, when this wasn't the original purpose of the campaign.

The different approaches being pursued inevitably reflect the nature of the charity and its work. For Shelter, face to face fundraising, run, unusually, by an in-house team, is the mainstay of their voluntary income, with over 110,000 active supporters. Their supporters are typically in the 25-45 age group, which is much younger than usual, but a worry for them is that many are employed in the public sector and therefore could be particularly hard hit by the cuts. Carers UK, on the other hand, have not been able to invest in developing a supporter database, but do have 15,000 members, albeit usually on low incomes, so, for them, a raffle has the potential to raise large numbers of small donations. Cambridge House has no tradition of fundraising, but has been able to secure valuable pro bono support from companies where their trustees had personal links.

All these approaches require staff. Most people thought the hardest types of fundraisers to recruit were those working on big gifts or trusts and foundations, whilst company sponsorship, direct marketing and events were the easiest, because they could all be done by people with transferable skills from the private sector. Having recruited good people, it's then important to retain them, especially since so much of fundraising is about developing and maintaining relationships with people. Staff training, job swaps, team working, away days, visits to other charities were all frequently mentioned as ways of trying to ensure your charity didn't simply become a stepping stone to a better job elsewhere.

### Relationships

Ever since Ken Burnett's book on the subject (1992), we've all known that fundraising is all about relationships, but it was interesting to learn how important internal relationships are for the success of fundraising. Some of the charities I spoke to had trustees who never showed any interest in fundraising, chief executives who either weren't interested or didn't understand and other staff colleagues, who variously saw fundraising as 'a necessary evil', 'peripheral and anomalous' or 'embarrassing'. Staff involved in service delivery never got involved and were critical of fundraisers for being in an ivory tower and never achieving their targets.

In other cases, where these views used to be held, it was clear that major changes were taking place. The trustees had spent more time discussing fundraising in the last nine months than they had for the last nine years; new trustees coming on board were bringing fresh perspectives from the worlds of marketing and communications; fundraising was a central part of strategic discussions about the future of the organisation; and the chief executives were described as 'brilliant' and very engaged in fundraising. The ambition in charities like KIDS and Shelter is that all staff should become involved in fundraising. Action for Children's ambitions include being 'Famous for Fundraising' and 'Campaigning Fearlessly'.

Some charities have located fundraising in a wider directorate such as Communications and Fundraising or External Relations and Communications Departments. In each case, the Director, is not a charity fundraiser, which means there is no one with this experience in the SMT. Obviously, this can create difficulties, if the head of fundraising is not given the opportunity to contribute to strategic discussions in a meaningful way. On the other hand, it can bring other advantages in terms of increased coordination between fundraising and other activities and can clearly be made to work, particularly when the chief executive has a good understanding of fundraising.

The best example I found of how fundraising can be integrated into an organisation's overall strategy was at Scope. The Director of Fundraising, Jason Suckley, has only been in the sector four years having worked in marketing for BP. He freely admits that he had to justify why the Director of Services, responsible for 3000 staff compared to his 45, should feel obliged to

consider the role of fundraising within all aspects of the development of services strategy. However, by working together they have developed a truly innovative approach to financing the development of new housing for independent living, described below.

### **Scope's Grangewood Venture Philanthropy Package**

Scope has £20m of property which is currently home to around 600 disabled adults. Most of these services are in desperate need of modernisation. Grangewood in Essex is one such service, which Scope plans to modernise by building 15 new flats where disabled people will be able to live independently.

The total cost of the project is £2.7m (£18,000 per unit), but Scope already owns the land, so needs to raise £1.8m to finance the project. The revenue for supporting each service user is funded by the local authority and Scope's business model means they can run the service at a surplus, which could support a £750,000 mortgage at a semi-commercial rate from lenders such as Charity Bank, Triodos and Unity Trust Bank. However, they will not lend until the remaining £1.05m is in place.

Scope's plan is to raise the deposit by selling 'packaged units to individual investors, consisting of:

£1750	Net donation (needs to be £2800 gross)
£1750	Gift aid and tax relief
£7000	Three year interest free loan (repaid from sale of existing building)
<u>£10,500</u>	
£7500	Commercial loan to 'match fund' each investor unit
£18,000	Total for each unit

This means that every donor who gives £1750 net of gift aid and lends Scope £7000 interest free for three years generates £18,000 investment in the project i.e. leveraging by a factor of 10. Each unit holder will be issued with legal documentation and a 'Loan note'.

Scope has a number of actual and potential high net worth supporters who they are now approaching with this proposition. If successful, they plan to use this model to finance around £40m redevelopment of other services.

This kind of approach, which was developed by the Head of Philanthropy and Social Investment in the fundraising directorate and combines asset management, philanthropy and social investment can only be delivered by a truly corporate approach. It shows what can be achieved if fundraising is seen as integral to the way in which an organisation plans and operates. The development of new approached to fundraising using social media and ICT will also require this kind of innovative thinking across communications, campaigns, membership and resources.

## Wider implications

Interviewees were also asked about what they thought the Institute of Fundraising should be doing to help address some of the issues they raised and what actions they would recommend for the NCVO Funding Commission, which is taking a 10 year look at the future funding of the sector and is due to report in December this year.

There was a general consensus that the Institute could be doing more to promote fundraising as a career and to develop a wider range of training opportunities, including an undergraduate course and more mentoring schemes. At the same time, it could be providing more thought leadership around the kind of issues raised in this article.

Six themes were suggested for the Funding Commission to take on board:

- The big charities are getting bigger; must ensure that the interests and cost effectiveness of the medium and smaller sized charities are well represented to funders and the general public
- There are too many charities, resulting in too many asks to the general public; there should be more mergers
- Need to get trustees and chief executives more involved in fundraising strategy and approaches
- Commissioning still needs to be improved; there should be earlier discussions about needs and partnership approaches to addressing them
- Social investment has great potential; the current disconnect between fundraising and social investment needs addressing
- Need to address the bad press which fundraising currently gets and promote fundraising more positively.

Interviews with nine charities, only one of whom was a local charity- and a big one at that- can only provide a very partial snapshot of how people are viewing the future. But I sensed through these interviews that the sector could be at a pivotable stage in its development; we are having to rediscover what it means to be a charity in a very different financial context to the one we have all been used to.

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June 2010