

# Future Focus

What will our  
funding be like  
in five years' time?



1



[improvingsupport.org.uk/change](https://improvingsupport.org.uk/change)

A joint initiative to strengthen support services for the third sector

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Written by NCVO Third Sector Foresight: Natalie Williams and Megan Griffith  
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## What will our funding be like in five years' time?

Whatever plans we make, changes in our external environment have an influence on voluntary and community organisations (VCOs). These might be reducing or shrinking sources of funding, changing government policies and regulatory priorities, shifting social attitudes, new technologies, and so on.

All organisations can become more successful by spending some time improving their understanding of the likely future of these external pressures and using this to make a stronger organisational strategy.

Some view this as a luxury: "It's only for rich charities"; or as impossible: "It's stargazing! You can't predict the future!" Others think that it is just an intellectual exercise that won't change what their organisation does. Others appreciate that it is one of the critical tasks of the chair, the board, the chief

executive and senior managers, but they still put it off: "I'll do it after this next funding application"; "...after this next board meeting"; "...once the new trustees are recruited".

This is understandable; a good analysis of the future does take time, and can involve learning new skills. For people with little time on their hands, NCVO Third Sector Foresight<sup>1</sup> have produced the Future Focus series to provide ready-made analyses of the future changes that are most likely to affect small and medium VCOs. Each guide

focuses on a different topic. For those keen to learn how to do it themselves, we have also published Looking Out, an accessible introduction to help VCOs develop these skills.<sup>2</sup>

This is the first guide in the series (see page 46 for details of the full series). It outlines how the funding environment will change for VCOs and suggests ways for you and your colleagues to use this information to help make strategic choices and plan ahead.

## How to use Future Focus 1

In the following pages, we outline the most important drivers that we believe will affect funding and how funding decisions will be made over the coming years.

These trends and issues may already be influencing your organisation or some parts of it at the moment. But these are the drivers which we think will grow in importance for small and medium VCOs in the coming years.

This guide will help you explore how changes in the funding environment will impact on the voluntary and community sector and how your organisation might take advantage of opportunities and minimise any risks.

### What are drivers?

Drivers are major forces or trends that could positively or negatively shape the future of your organisation.

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### Each driver includes:

A short description of what is happening, what is likely to happen in the future and why, plus an outline of some of the risks and opportunities this might present for your organisation.

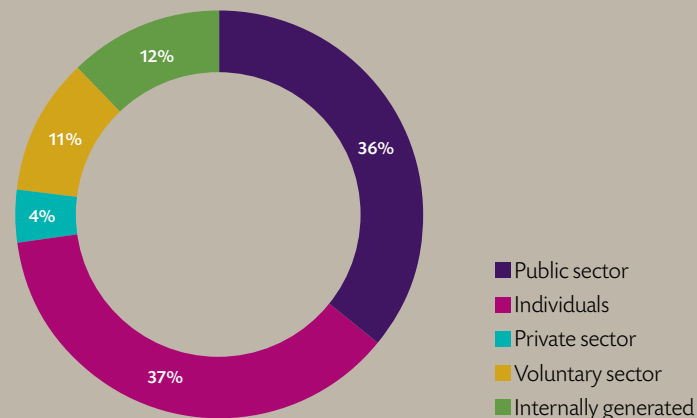
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How will your organisation respond?  
Jot down your thoughts in the blank spaces provided as you read.

## Setting the scene

Securing funding is essential to an organisation's survival and success. Successful fundraising begins with planning and with a good understanding of how the funding environment is changing and the opportunities and risks that may arise.



As illustrated below, the voluntary and community sector funding environment in the future will be characterised by increasing complexity and sophistication. This is shown by

- the many types of income now available (e.g. contracts, earned income and loans in addition to grants)
- rising expectations of reporting and accountability to funders
- a growth in strategic and engaged funding.

### Where will the money come from?

In 2005/06 (the latest figures available) 36% of the voluntary and community sector's<sup>3</sup> income came from the public sector, 37% came from individuals and 4% came from the private sector. In addition, 11% came from other voluntary and community organisations (e.g. grantmaking trusts) and 12% was internally generated (through trading activities and investments).

In 2006/07 the general public gave 9.5 billion to charity<sup>4</sup>, a slight increase over the previous year. Individual giving is expected to continue to rise gradually. A potential growth area is large donations by wealthy individuals, sometimes referred to as the 'new

philanthropists'. Corporate giving is likely to remain very low due to a long term shift away from giving and towards broader notions of socially responsible business practices. Grantmaking trusts and foundations will continue to be an important part of the funding mix and active players in policy discussions.

The shift from a government which delivers services to a government which buys services from the private and voluntary and community sectors has driven a significant increase in state funding of the voluntary and community sector. This trend is set to continue as all three main political parties voice their commitment to outsourcing more public services.

However, although the voluntary and community sector may be invited to engage in more areas of public service delivery, funding for existing services delivered by VCOs is likely to be tight as government finances come under increasing pressure. This may have serious implications for VCOs dependent on contracts whose services are not key funding priorities of government.

### Next steps

Drawing on these background trends, this guide explores six drivers that are affecting the funding environment, and it suggests a few questions to get you thinking about how they might impact on your organisation.

## Driver 1

Increased expectation of trading and charging for services

Although some VCOs may feel uncomfortable with the idea of trading or charging for goods and services,

within the voluntary and community sector and the funder community there is a strong interest in creating financially sustainable organisations that benefit from a number of income streams, particularly unrestricted free income.



### Driver 1

Increased expectation of trading and charging for services

As a result, the voluntary and community sector has seen a recent growth in income generating organisations and activities (known as social enterprise<sup>5</sup>). We believe that this activity will continue to grow and get stronger over the next five years, as will the expectation that VCOs should generate income. It's possible that a two-tier sector will develop – those who take a pragmatic approach to getting income and are relaxed about the boundaries between sectors, and those who hold to the ideological position that trading is at odds with the voluntary sector ethos.

## Moving forward:

Has your organisation considered the costs and benefits of earning more of its income? Earned income may help your organisation feel more in control and enable you to plan more effectively for the long term, but it can also require new skills.

What is your organisation's attitude to earning more money? What culture changes would need to take place in your organisation if you started down this road?

How will the increased expectation of trading and charging for services impact on your organisation?

In five years' time, will your organisation be trading or charging for any of its services?

**Use the box to jot down your thoughts.**

How important will this driver be to your organisation in the next five years?

LOW

MEDIUM

HIGH

## Driver 2

Increasing complexity – contracts and loans

Funding from statutory agencies is becoming increasingly complex due to a shift from grants to contracts and the emergence of loan finance as a funding option.

In 2005/06 more money from the state came in the form of contracts (62%), than grants (38%). The procurement<sup>6</sup> of services through contracts means that services are increasingly delivered according to the desired outcomes<sup>7</sup> and terms of the statutory funder, which means that it will be increasingly important for VCOs to play a role in the design of services and to agree the desired outcomes.



## Driver 2

Increasing complexity –  
contracts and loans

Loan finance has emerged as a funding option and its use is likely to increase as the state seeks to both rapidly increase the capacity of organisations to deliver public services and to recoup some of the money invested in order to re-invest it (known as 'recycling capital'). Managing contracts and loans presents challenges for organisations in terms of financial management skills, but offers opportunities in terms of potential sustainability.

## Moving forward:

Is your organisation ready to bid for and manage contracts? Do you know what is involved or where to go to find out more about the skills you will need?

What role does your organisation play in helping to design local services? Does this need to change?

Could loan finance be an option for your organisation in the future?

How will the increasing complexity of funding options impact on your organisation?

In five years' time what will your funding from statutory agencies look like?

**Use the box to jot down your thoughts.**

How important will this driver be to your organisation in the next five years?

LOW

MEDIUM

HIGH

### Driver 3

#### Strategic and engaged grantmaking

Many grantmaking trusts and foundations, and wealthy donors, are becoming increasingly strategic in their giving and engaged with the organisations that they support.



At the same time there has been a decline in open grant programmes.

### Driver 3

Strategic and engaged grantmaking

Strategic and engaged funders view their contribution less as a gift, and more as an investment for which they seek a 'social return'. Engaged funders can offer different types of support to organisations. An extreme example of engaged funding is 'venture philanthropy' where individuals take a very hands-on approach to improving the performance of organisations. Although having an engaged funder can be a great opportunity, the outcome that strategic funders wish to fund don't always match those proposed by the organisation. The challenge for organisations is to balance their own mission with what funders want. Some organisations may find it increasingly difficult to find funders whose vision of success matches their organisation's work.

## Moving forward:

How do you balance your mission with the aims of funders in order to secure funding? Do you have a suitable procedure for deciding whether or not a funding opportunity is too far off-mission?

Would your organisation benefit from a more hands-on relationship with funders and how might you handle the tensions that could result?

How will an increase in funders that are more strategic and engaged impact on your organisation?

In five years' time will your relationship with funders have changed? And if so, how?

**Use the box to jot down your thoughts.**

How important will this driver be to your organisation in the next five years?

LOW

MEDIUM

HIGH

## Driver 4

Stronger expectations of evidence

Funders of all types (including trusts, statutory bodies and individuals) are increasingly seeking better information to help them select the organisations that they perceive to be capable of making the biggest difference.

They expect better evidence of what their money could achieve, or already has achieved. This has resulted in increasing pressure on VCOs to improve how they assess and demonstrate the outcomes of their work, as well as the outputs.



#### Driver 4

Stronger expectations of evidence

The wealth of easily accessible information online has raised expectations about the quality and the quantity of information that VCOs should provide. Recently, new services have emerged which seek to make the allocation of funds more rational and effective by providing a range of information about the activities and outcomes of VCOs to potential donors<sup>8</sup>. These services and the organisations behind them are likely to become more important and powerful in the future, and the result will be even higher expectations of evidence in the coming years.

## Moving forward:

VCOs that are able to demonstrate the lasting benefits, and distinctive value, of what they do will be more likely to secure funding. Does your organisation need to improve how it assesses and demonstrates the changes it makes?

How can assessment of the change your organisation makes improve your planning?

How will stronger expectations of evidence impact on your organisation?

In five years, time how will your evidence base have developed? How will you use it to increase your chances of securing funding?

**Use the box to jot down your thoughts.**

How important will this driver be to your organisation in the next five years?

LOW

MEDIUM

HIGH

## Driver 5

The importance of cost and value

Growing pressure on public finances and the strong emphasis placed on efficiency and value for money has meant that the government is increasingly looking to procure services for less money.

This will have an impact on all organisations delivering services on behalf of statutory agencies in the future.



## Driver 5

The importance of cost and value

However, there is also growing emphasis on value<sup>9</sup> of services delivered by VCOs and acceptance of the need to pay the full costs of a service (e.g. overhead costs or training costs). The need for efficiency savings on the one hand, and recognition of 'added' or 'distinctive' value and true costs on the other hand, are conflicting pressures on statutory agencies commissioning services from VCOs. In the future, VCOs will need to be better at understanding and demonstrating the true cost and value of their work if they are to be able to negotiate adequate funding.

## Moving forward:

Recouping the full costs of a service could help make your organisation more financially sustainable. What is the true cost of new projects to your organisation?

How could you be more effective at negotiating with current and potential funders?

What strategic questions do you need to ask to decide whether to deliver a service for less (or more) than cost?

How will you be affected by new demands for efficiency and value for money?

What do you need to do to be better able to offer more distinctive value to funders in five years' time?

**Use the box to jot down your thoughts.**

LOW

MEDIUM

HIGH

## Driver 6

### Competition for funds

# Competition for funds is intensifying.

The number of charities is growing; 4,958 new charities registered with the Charity Commission in England and Wales in 2007<sup>10</sup>.



## Driver 6

### Competition for funds

The voluntary and community sector is also becoming more polarised with two-thirds of the sector's income going to only two per cent of organisations. As a result, smaller charities are increasingly finding themselves competing with larger national charities for funding. In addition, competition from public and private sector providers for funds is growing. The increase in independent public bodies with the freedom to fundraise (e.g. foundation hospitals and trust schools) will mean more local competition for funds in the future, and competitive tendering for public services will lead to more competition from private sector providers for some VCOs.

## Moving forward:

Do you need to reconsider the position of your organisation in relation to other organisations in your sector or area?

Could working in partnership with other VCOs help you to secure funds in the future?

How will increased competition for funds impact on your organisation?

In five years' time will your relationship with other players have changed?

**Use the box to jot down your thoughts.**

How important will this driver be to your organisation in the next five years?

LOW

MEDIUM

HIGH

## So what? Now what?

### Considering strategic implications for your organisation

Hopefully you now have a better understanding of some of the key drivers that will influence what your funding will be like over the coming years. The next step is to turn this information into choices about future actions.

This process is covered in depth in Looking out: how to make sense of your organisation's environment (see page x) but the following questions will get you started. Why not consider them with colleagues or with your trustees?

### Selecting the most important drivers

First of all, how important did you think each of the six drivers would be for your organisation?

Driver 1: Trading and charging for services

LOW MEDIUM HIGH

Driver 2: Contracts and loans

LOW MEDIUM HIGH

Driver 3: Strategic funders and grant making

LOW MEDIUM HIGH

Driver 4: Expectations of evidence

LOW MEDIUM HIGH

Driver 5: Cost and value

LOW MEDIUM HIGH

Driver 6: Competition for funds

LOW MEDIUM HIGH

### How much time do you have to consider these further?

If you're short of time, pick the one or two which are the most important for your organisation. If you have more time, consider more.

## So what?

### Strategic opportunities and challenges

You may already have started to jot down ideas about what these drivers will mean for your organisation in the future. We suggest you develop these ideas a little more, perhaps by drawing up a table like the one below.

Opportunities and challenges should be medium to long term and focused on the changes to your organisation's strategy that you may need to make.

Driver	Opportunities	Challenges

### Thinking about your stakeholders

Stakeholders are those who have an interest in what you do. Don't forget to consider how these drivers may impact on them, and how this may then influence your relationships.

#### Consider:

**Your workforce** – both paid and voluntary

**Your users and beneficiaries** – both direct and indirect

**Your funders** – individuals, corporates, trusts and foundations, statutory agencies

**Other players** – your competitors, your collaborators, those who complement you, other VCOs, private sector providers, public sector providers

**Other stakeholders** – the media, general public, policy makers.

## Now what?

### Strategic opportunities

Once you've understood what the future could look like, you can identify actions that you can take which will maximise opportunities and minimise the negative effect of risks and challenges. It can be helpful to think about three kinds of opportunity:

**Improve** – what opportunity does your new knowledge give you to do what you do better?

**Innovate** – what opportunity does your knowledge give you to do different things?

**Improvise** – what opportunity does your new knowledge give you to manage risks and threats?

Why not develop some ideas and options for these different types of opportunities? You could draw up a table like the one below.

Improve	Innovate	Improvise

## Taking action

### A case study

This example sets out the actions a frontline organisation takes in response to these drivers to put it on a stronger footing in the years to come. This organisation is fictional, but its story is based on a number of anecdotal experiences from real VCOs.

Soulz is an organisation operating within its local borough that helps young black men with mental health issues. It offers counselling for mental health and drug related problems and advice on housing and welfare benefits issues. It has an annual income of £110,000 with three members of paid staff and eight volunteers. They receive the majority of their income from two grant making trusts, a smaller proportion as a contract from a local authority, and a small amount from individual donors.

After reading this guide, Soulz's manager realised that there were some important changes occurring to voluntary and community sector funding that could have a serious effect on his organisation in the future. He was aware that his organisation needed to plan how to take advantage of new funding opportunities, whilst also avoiding the significant funding risks on the horizon. Using the foresight he had gained from reading Future Focus Soulz's manager discussed the 'So what? Now what?' questions with his trustee board and together they drew up some practical actions for Soulz to implement:

## Taking action:

A case study

- **Competition:** With a high number of youth and mental health services around, Soulz has already experienced increased competition for funding. The board considered expanding their services to include employment and training advice but with several other similar organisations already offering this facility to young people, they decided to stick to the niche market that they serve.
- **Financing:** They have started to negotiate a partnership with an organisation that provides training and employment advice for young people so that both organisations will become more effective and joined up. They hope this collaboration will increase the chances of being successful in future competitive tendering processes to deliver services on behalf of the local authority.
- **Better evidence:** Soulz are going to conduct a user survey so that they can have a clearer idea of the problems their users arrive with and the change that the support from Soulz has made to their lives. This will allow Soulz to demonstrate the outcomes and distinctive value of its work more successfully to current and potential future funders.
- **Generating income:** One of Soulz's more engaged funders queried whether they could generate some income as part of their funding mix. Increased competition has meant that Soulz also wanted to become more self-sustainable. They now plan to sell education packs to schools on the links between drug abuse and mental health. They already have enough information to start marketing the packs to schools straight away. They considered other trading projects, but rejected them as being incompatible with their mission.

## Further information and support

### NCVO Third Sector Foresight

NCVO Third Sector Foresight helps voluntary and community organisations create effective plans with strategic insight and planning tools.

[www.3s4.org.uk](http://www.3s4.org.uk)

HelpDesk: **0800 2798 798**

Textphone: **0800 01 88111** (minicom)

### NCVO Strategy and Impact

The NCVO team supports voluntary and community organisations with strategic planning, impact reporting involving users and managing change.

[www.strategy-impact.org.uk](http://www.strategy-impact.org.uk)

HelpDesk: **0800 2798 798**

Textphone: **0800 01 88111** (minicom)

### Funding jargon buster

A simple glossary of phrases commonly used in the context of voluntary and community sector funding and social enterprise.

[www.ncvo-vol.org.uk/sfp/jargonbuster](http://www.ncvo-vol.org.uk/sfp/jargonbuster)

### NCVO Sustainable Funding Project

The Sustainable Funding Project encourages and enables voluntary and community organisations to explore and exploit a full range of funding and financing options to develop a sustainable funding mix.

[www.ncvo-vol.org.uk/sfp](http://www.ncvo-vol.org.uk/sfp)

HelpDesk: **0800 2 798 798**

Textphone: **0800 01 88111** (minicom)

### NCVO Publications on Full Value

True Colours: Uncovering the full value of your organisation and Full Value: Public services and the third sector are two NCVO publications exploring the concept of full value and its relevance to policy and practice.

[www.ncvo-vol.org.uk/fullvalue](http://www.ncvo-vol.org.uk/fullvalue)

HelpDesk: **0800 2 798 798**

Textphone: **0800 01 88111** (minicom)

## Appendix: Notes and references

<sup>1</sup> See further information and support page 44 for details.

<sup>2</sup> Looking out: how to make sense of your organisation's environment, <http://www.ncvo-vol.org.uk/lookingout>

<sup>3</sup> These are the latest figures from the UK Civil Society Almanac 2008 which uses a narrow definition of voluntary and community sector, known as the 'general charities definition'. For more details, visit [www.ncvo-vol.org.uk/almanac](http://www.ncvo-vol.org.uk/almanac)

<sup>4</sup> Source: UK Giving 2007, published by NCVO and CAF. <http://www.ncvo-vol.org.uk/research/index.asp?id=7662>

<sup>5</sup> Social enterprise – Social enterprise is the activity of trading, selling goods and services, for a social purpose. Social Enterprises are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

<sup>6</sup> Procurement – The purchase of goods and services from an external agency

<sup>7</sup> Outcomes – The changes, benefits, learning or other effects that happen as a result of services and activities provided by an organisation.

<sup>8</sup> For example, New Philanthropy Capital [www.philanthropycapital.org](http://www.philanthropycapital.org), Intelligent Giving [www.intelligentgiving.com](http://www.intelligentgiving.com), and Guidestar UK [www.guidestar.org.uk](http://www.guidestar.org.uk)

<sup>9</sup> There is no commonly agreed definition of terms like "added" or "distinctive" value that have been used to refer to the sector's contribution to services in the past. NCVO focuses on "full value" which takes a broad understanding of what matters in a service, including the outcomes and satisfaction for users and wider stakeholders. For more information see [www.ncvo-vol.org.uk/fullvalue](http://www.ncvo-vol.org.uk/fullvalue)

<sup>10</sup> Source: <http://www.charity-commission.gov.uk/registeredcharities/cfacts407.asp>

If you would like to be kept informed about the Future Focus series, please email your details to: [foresight@ncvo-vol.org](mailto:foresight@ncvo-vol.org)

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# Future Focus 1

What will our funding be like in five years time?

This is the first in a series of guides to help voluntary and community organisations think about likely changes in their external environment and how these changes could affect them.

A good analysis of the future does take time, but it's not impossible and shouldn't be seen as a luxury. All organisations can become more successful by spending some time improving their understanding of the likely future external pressures they will face and using this information to help make strategic choices and plan ahead. These guides aim to help you do that.

To order more copies or download the pdf, visit: [www.ncvo-vol.org.uk/futurefocus1](http://www.ncvo-vol.org.uk/futurefocus1) or freephone **0800 2 798 798**

**National Council for  
Voluntary Organisations**

Regent's Wharf  
8 All Saints Street  
London N1 9RL

T: 020 7713 6161  
F: 020 7713 6300

E: [ncvo@ncvo-vol.org.uk](mailto:ncvo@ncvo-vol.org.uk)  
[www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

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