ncvo

Sustainable Funding Project

CASE STUDY

Birmingham Settlement

Organisation

Birmingham Settlement

Key themes

- Being unclear about costs and outputs fundamentally threatens an organisation's sustainability and the detrimental results of this can impact suddenly.
- The importance of maintaining focus on organisational mission.
- An example of undergoing a complete organisational review, paring back services and increasing partnerships.

Summary

Birmingham Settlement has been a part of its local community since 1899. In 2004/05 a large deficit, followed in early 2005/06 by non-payment for work and the loss of a major public sector contract, threatened its ongoing existence. The ensuing crisis demonstrated that it was running too many projects without the internal specialist skills and knowledge needed. They also lacked the systems needed to give a quick, ongoing and accurate overview of their financial position. A major restructure and refocus, with an emphasis on community partnerships, has put them back on track, stronger and more determined than before.

Date

This case study is based on an interview held on 24 May 2007 with *Professor Kenneth Spencer*, Chair of the Board of Trustees and *Martin Holcombe*, Chief Executive of the Birmingham Settlement.

'It's about transforming your organisation for the new world, and that's not easy.'
—*Ken Spencer*, Chair of Trustees, Birmingham Settlement

The Chair and Chief Executive of Birmingham Settlement – Ken Spencer and Martin Holcombe respectively – make a great double act. They are clearly on the same wavelength when it comes to describing the purpose of their organisation and the work they are doing to achieve their mission.

Their enthusiasm for Birmingham Settlement is obvious. Perhaps this is because they have witnessed the 108-year-old organisation going through a tumultuous period where the future was in doubt, but have managed to come out the other side 'leaner and meaner'.

Refocusing what they do and making significant changes to their structure and programmes have left them with an increased sense of control and an ability to be more flexible: to more effectively meet the needs of their users. While the process has not always been easy they are happy to share their experiences and to discuss what they have learnt along the way.

Birmingham Settlement: 'part of the fabric of the community'

Established in 1899, Birmingham Settlement is one of the oldest independent localised charities in Birmingham. It was initially formed to provide support to women and children in the seriously deprived area of St Mary's, now known as Newtown.

Birmingham Settlement continues to work to improve the quality of life for people affected by poverty, unemployment, social isolation and language or cultural barriers. Towards this, they provide services including:

- Care services for children and older people
- Training and employment opportunities for individuals
- Development support for voluntary and community organisations
- Money advice and debt counselling services for individuals
- Community facilitators to build community cohesion.

Until late 2005 the Settlement was housed at 318 Summer Lane, in what Martin now describes as a 'huge sprawling site with dilapidated buildings'. The location was at the centre of the community until the 1960s; however the 1960s and 1970s saw housing in this area gradually replaced by light industry.

Although the families had moved away, Birmingham Settlement's reputation meant that the community knew where to find them. As Ken says, 'All this happened around us and we carried on as normal. People knew we were there... We are part of the fabric of the community'.

Ken and Martin agree that having such a well-established reputation is positive in terms of generating word-of-mouth referrals and meeting the needs of their users, but it also means having to manage expectations and the risk of being seen as an institution where things are always done in the same way. This particularly became an issue when the Settlement began facing difficulties in 2004.

Some woes! Overstretched and under resourced

In the summer of 2004 Birmingham Settlement began experiencing problems. At this time the organisation had a turnover of £3million and was running 24 projects. In retrospect they can see that they were overstretched and trying to do too much with the resources they had. Martin believes 'The Settlement became an organisation that was chasing the money. We were delivering services outside our natural areas of expertise because there was money available, but delivering these projects would take us [as compared to an expert in the area] three times as long. People saw us as a big organisation, and a figure of over 120 staff was often quoted. But in reality many of these posts were part-time and based outside our organisation – we provided an employment service for smaller organisations without the legal basis to employ people themselves. The actual number of full time equivalents was very much lower than 120 and what's worse we didn't know our exact staff figure ourselves.'

Overly proscriptive grant funding

In addition, running so many projects meant an increased burden in reporting requirements and adherence to various funding conditions and stipulations. Breaking down percentage allocations of their utility bills, for example, took an inordinate amount of time and fixed term funding meant a continual need to negotiate employees leaving their posts. Recruitment was also an issue. One particular post was part funded by nine separate funders, all of whom required their logo to be placed on the job advertisement – resulting in a huge ad and an increased cost to the Settlement. The organisation's HR, IT and finance functions were increasingly under pressure and no extra funds for core funding were granted or available to cope with the load.

'We were unclear about what our real costs were'

Perhaps the biggest issue of all was that many projects were running at a loss and, more worryingly, no one was aware of it. As Ken says, 'Projects were running at a deficit, but we didn't really know how bad the situation was. We were unclear about what our real costs were.' This became apparent in 2004 when it was suddenly revealed in a half-year forecast that the organisation was heading for a £315,000 deficit for the year. The size of the potential deficit came as a complete shock.

The complexity of funding arrangements and internal systems not geared up to deal with them, combined with a decentralised accounting system that meant that individual project managers (often without financial expertise) were responsible for managing their own budgets, meant that getting an accurate overview of the situation was very difficult.

There was also an immediate problem with cash flow. The Settlement was owed over £200,000 by one public sector organisation they had a substantial contract with. Some payments were more than a year overdue. To manage this, the Settlement was paying interest on an overdraft to the equivalent value of a staff post. 'The funder didn't understand the cash flow problems their non-payment caused. Although we are a charity, when it comes to our finances we are a business – we face the same issues a business would face. The funder in this instance simply did not seem to understand that if we are not paid, we cannot pay our staff and other running costs' says Ken.

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Overly dependant on a funder: 'our escape route was cut off'

Dealing with this crisis, while managing the already difficult task of reporting back to their various funders, stretched Birmingham Settlement's internal systems even further. Finances were being managed on a day-by-day basis, with the finance manager pulling back on paying debtors when wages were due, for example. The organisation had used all its reserves.

At the beginning of 2005 the Settlement decided to scale back operations by closing a day centre, nursery and crèche and reducing the central staff team. The outstanding contract amount was finally paid. Fortunately some generous supporters who knew of the Settlement's plight stepped in with donations to see them through the immediate crisis.

However, their problems were not over. For a number of years Birmingham Settlement had been managing a year-on-year deficit, always in the hope that things would get better. One particular programme brought in a significant amount of funds and involved a number of large public sector funders. Although it was a complex programme and dependant on a number of different partners to deliver, it was seen as something of a 'cash cow' and the Settlement was dependant on receiving these funds. Hence, when the news was delivered that this funding was not going to be available after June 2005, Martin says, 'it felt like our escape route was cut off'.

Crisis

Forecasts for the first half of the year showed that Birmingham Settlement was still carrying a potential £200,000 deficit. Ken says that it became apparent that 'our efforts in streamlining paled into insignificance. The problem was the deficit – we hadn't dealt with it sufficiently'. In addition to the fact the full cost recovery issues had not yet been addressed, there remained the major problem of getting accurate information; the systems were still not geared up to being able to quickly and easily provide an overall picture of the Settlement's financial position. Unclear employment arrangements with staff working on outreach projects and on a seconded basis meant that even knowing the exact number of employees was still difficult.

Internal systems were on the verge of collapse. A financial sub-committee was set up to meet once a fortnight to focus on the immediate position and the Board increased the regularity of their meetings to once a month. 'This was a major crisis,' say Ken. 'In one month we faced bankruptcy. It just hit everybody'. The trustees decided in September 2005 to seek advice from administrators on whether the Settlement was trading legally.

Emergency plan

Fortunately Birmingham Settlement had property as an asset. 'If we had been leasing a building we would have had to shut down,' says Ken. 'Having the buildings bought us time as we could use them to borrow.' The Settlement sold some of their buildings to pay debtors and ease cash flow. While moving from their historical site was going to be a major culture change, it was not necessarily all bad news. 'The buildings were old and dilapidated and getting worse,' says Martin. 'They were no longer fit for purpose. As they went downhill, the costs of upkeep kept rising'.

In the winter of 2005 Birmingham Settlement moved their core operations to Reynolds House Annex on Newbury Road, a site they had been using to deliver various services.

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This placed them in closer proximity to their service users and was suitable for their now reduced staff team. They already had a presence at the Centre for the Aston Family in Aston which they began to cement as a base.

From October 2005 they had 'got serious and started to focus on our core activities', says Martin. 'We learnt that in the first instance we didn't go far enough. This time our central support services stayed intact – we needed to retain financial and other support skills to ensure our future development was sound; instead we cut out entire programmes. We found that simply reducing services made the position worse – it just delayed the inevitable – so we decided that if we weren't doing something well, we shouldn't be doing it.' Restructuring and relocating was painful, but they were soon to begin seeing themselves as 'leaner and meaner'.

Reducing in size inevitably meant redundancies and during the difficulties staff morale was often low. The Board was also shaken up throughout this time. 'Some trustees jumped ship', said Ken. 'They got nervous when they considered the question "have you acted reasonably?" Could they answer "yes" if they didn't have the information? Their fear was understandable.' For those who remained, the Board and management saw the importance of being open and honest. They encouraged a feeling of optimism and a belief that together they could bring the Settlement back around.

Review and refocus

In late 2006, having survived the immediate financial crisis, Birmingham Settlement conducted a strategic review of the organisation from top to bottom. They revisited their aims and objectives to clarify their mission. From 'around 50' objectives, the Settlement now has 6 simply stated strategic objectives to which all activities contribute. They reconfirmed that helping individuals and groups to help themselves to overcome social disadvantage had to be their focus; not to simply deliver services in place of others, for example statutory bodies.

Serving beneficiaries was always core to everything that the Settlement did and in the past there was a tendency to ignore difficulties with reporting and processes as long as they could see people in the community were being helped. The crisis showed that this method was no longer sustainable. As such, they realised that if they did not change the way they did things they would simply not survive and achieve their mission.

'We completely re-focused the way we worked'

It was apparent within the Settlement that the internal systems and procedures were severely flawed. As Ken asks; 'How can you get halfway through the year and not know your financial position?' Improving financial procedures was a priority. Significantly the finance function was centralised to aid gaining an overall picture with an increased emphasis on processes to assist in information gathering and reporting.

The management structure was significantly reduced from 13 managers to five. HR processes were tightened, with a greater emphasis on formalised staff supervisions and appraisals to ease communication and reporting, and stricter recruitment processes were introduced, for example, new staff would only be brought in if the money to fund their posts had been guaranteed in writing. Employment contracts have mobility clauses ensuring cross team working and a greater focus is placed on supporting colleagues and working together as a unit. Getting the staff structure right is an ongoing process which will be continually monitored.

Internal costs were minimised as much as possible. For example, IT support was outsourced rather than having someone on the staff books, meetings were centralised to reduce travel costs and care was taken with seemingly small things, such as stationary orders. Moving to smaller premises reduced insurance and running costs. All of this had an impact. As Martin says, 'Being much smarter internally and making more sensible decisions really makes a big difference, the small things soon mount up'.

'We have to own this'

Along with these new processes, having a smaller organisation, a smaller management team and less projects on the go, meant that it was easier to see the overall financial position and costs were becoming clearer. Any potential problems were now also easier to spot before getting out of hand.

Staff began reporting more regularly to the Board and the new information management system meant that they were able to receive information they were not getting before. 'Now the CEO provides a report to the Board on a regular basis covering the whole organisation and each Board member can see the whole picture, whereas in the past Board members sometimes just focused on their particular interest areas', says Ken. 'Trustees had to understand the organisation a lot more thoroughly than we ever imagined we would have had to. But there was a feeling among the trustees that we have to own this.'

New ways of working: partnership work

The start of the 2006/2007 financial year felt like a fresh start for the Birmingham Settlement. The organisation was no longer carrying debts and had a much clearer understanding of its costs. They had dropped programmes they could not afford to run or where others were better positioned and more able to deliver. In some cases this meant signposting to other providers.

'We are not scared of closing services', says Ken. 'For example if a competitor is able to provide something for free and we would have to run it with a charge then we can't compete and will signpost to them. If we came up with a particular service idea and there is now a free provider we are pleased and proud. This is a success because we recognised the need and now that need has been recognised by government to the extent that they will fund it to be provided to users for free'. For example, National Debtline, a free service for people with debt problems funded by the Money Advice Trust, grew out of a local debt advice service started at Birmingham Settlement.

In other cases, the Settlement will work in partnership. For example, its children's centre nursery is now run by a specialist child care provider with a service level agreement in place between the two organisations. 'They have far more specialist knowledge in that area than us, so we work with them; what is most important to us is the quality and reach of the service provided, not who the provider is,' says Martin. 'We don't need to compete, we need to work together'.

The increased emphasis on partnerships not only avoids duplication in service provision, but also spreads the risk for the Settlement and means that services are delivered more effectively. 'Partnerships mean we can increase our outputs', says Martin. 'As a medium-sized multi-purpose organisation, part of our role is to act as a Development Agency – we can help smaller organisations to establish themselves and deliver. They may be the experts in a particular area but due to their size lack the capacity to take on certain projects. Together we can cover both aspects and increase service provision.'

Closely examining contracts

As part of the organisational review, all existing contracts were scrutinised. Any contract that was being delivered simply for historical reasons was dropped. 'If anything was not paying its way it had to go unless we had a clear path of action to redress the balance', says Martin, 'so everything left within the organisation was reasonably viable.' They placed a greater emphasis on monitoring and evaluating activities to ensure the Settlement was delivering contracts in line with its objectives. Key Performance Indicators (KPIs) were put on existing contracts to assess how well the organisation was performing. 'We also pay closer attention to measuring our added value – not just contractual outputs – and this helps us to raise funds in all areas.'

Having a clearer understanding of costs allows Birmingham Settlement to make strategic decisions about any new work they may undertake. 'We now turn down contracts if they do not cover costs, unless the activity meets our objectives and we have alternative funding in place to meet the shortfall,' says Martin.

This new approach also means clearly examining and understanding the terms and conditions of a contract before commencing any work. Making such a demand was initially provocative for some of their purchasers. In one case a statutory contract was lost with the statutory body saying they expected delivery to start immediately, and the Settlement arguing that they could not start delivery without a signed contract. Martin says 'in the past we would have just started delivery but we have learnt from having our fingers burnt in the past. Now we are more cautious. We ask for at least a letter of intention with the amount we will be paid, timescales and the outputs we are expected to deliver'. 'Trust is a two way thing; it needs to be earned', Ken adds. 'Our approach is now largely accepted. Credibility levels can increase in turning money away.'

Diverse funding to reduce dependence and increase innovation

Birmingham Settlement now has a turnover of £1.6 million. Achieving a balance of public sector funding, earned income and voluntary income through grants and donations is a key objective of the Settlement. They see this as essential to enhancing their financial standing and securing long-term viability. Earned money comes in the main from six charity shops (that have been in operation since the 1960s), rental of meeting space to other community groups and through training. A new opportunity sees them providing independent financial advice to tenants under contract to housing associations.

A development manager is on board to explore new possibilities and to scope potential pilot projects. Being open to increased partnership work helps open new opportunities and bring in new pots of money in an extremely tight funding environment. While the fundraising team has been reduced, the organisation now fundraises more strategically, taking a more targeted approach and working to very clear expectations. A trustee is heavily involved in the process, including increasing the Settlement's profile in the community, and a fundraising consultant is employed one day per month to identify relevant opportunities and advise on applications.

There has also been an effort to strengthen relationships with existing funders. 'We not only thank them and acknowledge them for what we receive, but also send them regular updates and let them know how their money has been used. Taking this proactive approach helps your cause in the long run,' says Martin. The approach is clearly effective, with the amount fundraised last year more than double the amount budgeted.

While statutory income previously made up the overwhelming majority of the Settlement's budgeted income at the start of any financial year, this has been reduced to just over 50% at the start of the 2006/07 financial year and 38% in the current year. This income remains, and always will be an important part of the Settlement's mix. However lessons from the past mean that they do not want to rely significantly on this proscriptive, restricted funding. Reducing this dependency is also seen as essential to maintaining their role as an organisation that challenges the status quo.

'If we get too tied up with proscriptive statutory contracts are we independent?' asks Ken. 'Our role is to challenge and we have to be brave enough to do that. It's not about waiting for government to set priorities. We should be highlighting need and being proactive to meet that need.'

'It's difficult for statutory funders' adds Martin. 'For example a local authority can't take the risk of just doing something to see how it works. They would be under too much criticism if it fell away. But if Birmingham Settlement runs a tight ship then that is something that we can do. Finding innovative solutions and new ways of working to help resolve problems is one of the values of a voluntary organisation like ours and the voluntary sector as a whole, and we need to have some financial independence to achieve that'.

The importance of good public relations

As can be imagined, Birmingham Settlement initially did not want people to know about the extent of their funding crisis. While those close to the Settlement knew of their problem, they were careful to manage external impressions of their situation. 'If funders think you are in trouble then they may be more cautious about funding you', says Martin.

'Rumours fly about, people were saying to us, "we heard that you are closing", so we had to be seen to have a positive plan in place'. 'We had to put a brave face on', adds Ken. 'Clients still required our services'. Having survived, they now feel their story can provide points of learning for others.

'Now we pay closer attention to the way we are perceived,' says Martin. 'We think about our image, not just the effect on people on the ground. In this new age we are much more outward looking. We are more proactive about going out into the community to meet with key contacts, such as potential funders, statutory commissioners and councillors. We have turned the organisation around: this is a good news story that we can tell people about'.

Key learning points from Birmingham Settlement:

- If money comes first then your mission and objectives can fall away – you're heading for mission drift and a big crunch.
- Know your areas of strength and focus on them.
- Biggest isn't always best. In the past we tried to maintain everything; this was just not possible. There is a perception of being seen as a failure if services are closed down. But you need to ask yourself, what's more important? The organisation as a whole or maintaining the status quo and just doing what you have always done for the sake of it?
- We are smaller now but more influential because we are linked into so many other organisations. We have a bigger reach now than we did two years ago – we did not anticipate this when restructuring but it is a welcome fact.
- We take a holistic approach to our clients. If we no longer provide a service then we signpost them to someone who does. We are constantly looking at how we can link with other specialist providers and for links across services. On a practical level, working in partnership opens up bigger and more varied funding opportunities.
- Assess what's going on to be able to exploit opportunities. We look at the wider community and what's new on the agenda. Innovation is key to being responsive. Plans need to be flexible. We hold regular meetings to share values, identify need and links, to determine our direction and ensure we're on track.
- Make tough decisions quickly. Don't hover around and haemorrhage to death. A dramatic change can be easier to manage than tweaking. You have to find the balance: be hard but fair, and ultimately realistic. Although we are a charity, we are a business and the books need to balance.
- We take a cautious approach to contracts. We are much more honest with our funders – if the criteria aren't right and if it doesn't fit with our ethos then we turn it down. We are not overly reliant on one contract, but have several on the go.

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- We are still working on achieving full cost recovery; it is better than before but there is still a long way to go. There needs to be a two-way dialogue in place and you have to be confident about negotiating conditions. If all organisations did this commissioners would have to take notice.

- We don't pretend we are out of the woods. We are in an ongoing process. The way in which we are funded means we will always be at some risk, but we acknowledge that position and work to ensure we know exactly where we are at any one point. We are investing in the top priorities needed to help us move forward. We are always on the lookout for new opportunities to most effectively serve our beneficiaries.

Links

Birmingham Settlement www.birminghamsettlement.org.uk

Birmingham Voluntary Services Council (BVSC) www.bvsc.org
Advice, support and resources for voluntary and community groups

Learn more about putting sustainable funding into action at the Sustainable Funding Project website at www.ncvo-vol.org.uk/sfp/inpractice

The Sustainable Funding Project is an NCVO initiative working in partnership with the Big Lottery Fund and Charity Bank.

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.

Supported by BIG LOTTERY FUND

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