

Funding Advice Bureau

SYFAB guide to...

**Dealing with a
funding crisis (and
how to avoid one)**

SYFAB

Dealing with a funding crisis

There are lots of reasons why a voluntary or community organisation may find itself in a fundraising crisis. Some of those reasons, such as an unexpected funding cut, or an economic downturn, are external issues that cannot be easily foreseen or prepared for. Others are the result of internal weaknesses, and can be easily avoided.

This guide will deal with both types. First, we will summarise the main types of funding crisis you could encounter. Then we will go through the steps involved in managing a funding crisis in the short-term. The third section explains the medium and longer-term strategies you can put in place to avoid an unnecessary fundraising crisis in the future. Then at the end, we give details of further reading and useful resources.

The main types of funding crisis

The first step to being able to deal successfully with a funding crisis is to make sure you understand exactly what the crisis is and what impact it will have on your organisation and the people involved in it. The main types are:

- A funder suddenly cutting your grant: where does this grant come from and what does it pay for – project costs, your core costs, service delivery, salaries, all of those things?
- An unexpected fall in income for other reasons, such as the impact of an economic downturn, a fall in the number of individual donors
- Unforeseen expenditure, like the costs of building work getting out of hand, unexpected equipment breakdown, or an unexpected hike in running costs such as rent.
- Failing to plan a proper exit strategy for the end of a time-limited grant
- Poor financial management by your organisation; for example, the committee failing to check the budget regularly

- Poor organisational management of other issues, such as continuing to employ staff knowing there isn't enough funding for salaries.

What to do in a funding crisis

In this section, we run through the four steps in dealing with a funding crisis.

Steps 1 to 3 are concerned with developing a plan of action, and step 4 is all about implementing that plan. From the moment you identify the funding crisis, you need to make sure you communicate with your management team (senior staff and management committee) and bring in their expertise to help you plan and do the work needed to deal with this crisis.

Step 1: Understand what the crisis is, why it happened, and what the implications are.

Once you know what the problem is, you can deal with it more effectively. It's tempting to miss out the thinking and planning stages and go straight to action, but don't. A little time spent planning now will make the action you take much more likely to get results.

So you want to find out:

- What has happened – what type of fundraising crisis are you in?
- Why it has happened – for example, if your grant has been cut, is this a cut that just affects your organisation, or has the funder cut other organisations too?
- The impact and the timescale – think through what the results of this crisis will be; for example, if a grant has been cut, when will the grant stop, and how long can you continue with the funding you have in place?

For 'external' funding crises like unexpected grant cuts and unexpected expenditure, your priority is to get on with planning out and implementing a strategy for raising the money or reducing the expenditure to remedy the crisis. However, for fundraising crises that result from your organisation's own lack of management or planning, then your immediate priority is to fix the internal problems and make sure they won't happen again.

Step 2: Plan your options

Next, you build on the exploratory work you've already done to make a plan for dealing with the crisis. It's useful to think of this like a project, where you set out the outcomes you want to achieve, and plan out the steps that will achieve those outcomes.

The main things you need to consider are:

- What is the best-case scenario – what possible outcome or outcomes would solve the crisis? Is there a target amount of money you would need to raise, or an amount of expenditure you would need to cut?
- Other scenarios – you might be able to think of other possibilities that would enable you to carry on but wouldn't be ideal. It's worth thinking about the other possible solutions and finding a plan B position
- Approaches – using the options outlined in step 4, you can begin to develop a plan for how you intend to meet your outcome, setting out the steps involved and prioritising them
- Who does what by when – now you have a set of tasks to do, you can start to assign them to particular people within your organisation, and set deadlines. Like any project, you also need to make sure that someone has responsibility for managing the work, ensuring deadlines are met, communicating important information and measuring progress
- What is your next action? The work needed to tackle a funding crisis can seem daunting – it's really important to get started as soon as possible, by determining the next action to be done is, and then doing it.

The details in your plan will depend on your organisation, the nature of the crisis and the resources you have available. Throughout, it is important to focus on what is best for your organisation and its beneficiaries in the long-term. It may sometimes be better to close a service for a period of time while you seek to establish a more stable financial environment, rather than spending your time constantly 'rescuing' a service for weeks or months at a time.

Step 3: Crisis Communication

All of the management team in your organisation should know about the funding crisis as early as possible and be involved in the planning stages for dealing with it.

However, you also have a responsibility for making sure that you communicate effectively with other stakeholders including:

- Your staff and volunteers
- Your membership, if you have one
- Others that may help you deal with the crisis, such as your other funders and your clients/service users.

Staff and Volunteers

A funding crisis creates a lot of uncertainty and can be a very unsettling time for everyone involved with your organisation. Good communication is vital – the key to managing a funding crisis in the short-term is making it a team effort. You might need a lot of time and goodwill from your staff, volunteers and management committee – and you'll need careful management and great communication to keep morale up.

Membership

If the funding crisis you face is very serious and puts the future of the organisation at risk, you also need to communicate with your membership, if you have one. Check your constitution, and seek legal advice on insolvency, if necessary.

Others

Your action plan will involve lots of communication with external bodies, whether you are contacting your current funders for short-term funding, making an appeal to your members, starting a campaign, or informing people about service reduction or closure.

In all these cases, it is important to have a clear and consistent message about the crisis you face and what you are doing about it.

This is especially important and delicate when the crisis has been caused by internal failings. Here, you will need to make sure you are clear about what you are doing to address the problem(s) and make sure it doesn't happen again. You may need to bring in some outside help with this. The final section of this guide has details of organisations that may be able to help.

Step 4: Action – implementing your crisis plan

In this section, we run through the main things you can do to help tackle a funding crisis. Exactly what you choose to do and how you choose to do it will depend on the nature of the funding crisis you face.

Cut costs

You may be able to look at your expenditure and find areas where you can reduce costs.

First, determine whether there is any non-essential expenditure that can be stopped.

You may be able to negotiate a payment holiday on things like rent/mortgage. After this, you may also need to cut expenditure in the short-term by reducing your level of service delivery, for example, reducing your opening hours.

In all cases, you need to be clear about which costs are essential and which are not (for example, if you owe wages or tax, you have to pay these). You also need to make sure you operate legally, especially if you are considering reducing staff hours or making staff redundant. Seek legal advice from your local CVS, or other support organisation to make sure you meet your responsibilities to your staff and volunteers.

Look for possible sources of at least short-term grant funding

- Current funders

By far the most likely sources of funding to help you through a crisis are your current funders, since they already know and support your organisation and its work, and they have an interest in protecting their investment in you. Like any approach to a funder, you need to think about your case for support – what are you going to ask them to pay for, what needs will that meet, and what difference it will make.

If your crisis is due to a statutory funder cutting your grant, you can try to negotiate with them before going public or launching a campaign. Make sure you know the terms and conditions of your grant, and make use of the Compact in your negotiations.

- Other Funders – Statutory

Particularly if your organisation delivers services or activities that the public sector benefits from, you might be able to approach the relevant statutory body for support, which could include your local authority, town or parish council, Primary Care Trust, Local Strategic Partnership, police authority, Regional Development Agency, or central government department.

Your chance of success is far higher if you already have contact with officers, and if you are already involved in relevant networks and partnerships.

Local authorities sometimes have crisis or hardship funds available for voluntary and community organisations in fundraising crisis. Contact your local CVS or funding advice agency to find out what help might be available.

- Other funders – non-statutory

Local organisations may consider approaching local funders such as charitable trusts for crisis funding. You can improve your chances if someone involved with your organisation knows a trustee of the funder and can approach them informally.

Other sources of income

You may already raise some of your income from sources other than grants, such as selling services (social enterprise), responding to tender opportunities, or an individual giving programme. If so, you may be able to focus on one or more of these sources to bring in some additional income. However, it is important to think through the timescale of any likely additional income, as it can take a long time to receive money from things like taking on additional work under contract.

Loans

If the fundraising crisis you are in is a cashflow problem, and you expect to bring income into the organisation in the future, you could take out a loan to plug a temporary gap in finances. You need to be confident that you will be able to pay this back.

Appeals

If you have a membership or at least a mailing list of users of your services and supporters, you could run a one-off crisis appeal asking them for one-off donations.

Used sparingly, crisis appeals can be a good method of fundraising that also raises awareness of your organisation and its continuing need for resources.

Once again, it is important to make your communication about the crisis as clear as possible. For an appeal, you set a target to raise, and a deadline, then publicise the appeal to your members, service users and supporters, requesting one-off donations. Be specific about what will be done with the money, and keep a high profile by reporting on progress. Don't forget to thank everyone who makes a donation.

You should make it as easy as possible for people to donate, and make use of the media to publicise your appeal.

Campaign/lobby

Running a campaigning and lobbying effort is not the same as an appeal. It involves a targeted series of communications and publicity to all your stakeholders and the media in order to raise awareness of the impact of your services and the terrible consequences of their demise, generally in order to put pressure on statutory funders to step in and support you.

The most likely scenario in which you would campaign is when a public sector funder has cut your grant suddenly or unexpectedly (although you should try to negotiate directly with the funder before going public with a campaign). There is also a good case for starting a campaign if you are delivering activities or services that a statutory body gets a lot of value from but they do not currently fund. Again, you should contact the statutory body directly first to attempt to open negotiations over future funding.

Close services, merge or shut down

In a funding crisis, the pressure is on you to try to do the same or more with less. You need to ask yourself how long you can sustain that, and how long it is reasonable to get your already busy staff and volunteers to take on more work.

Sometimes it may be preferable to reduce or close some of your services to manage with your existing capacity. You need to be certain that you're delivering services as efficiently as you can, and be prepared to make your case for delivering in the way you do. But this is better than putting your organisation, and the people involved in it, at risk by making promises you cannot deliver.

If the crisis you face is large enough to put your whole organisation's future in jeopardy, you might have to consider either closing down altogether, or merging with another organisation.

If you are planning to close down your organisation but you plan to re-open in the future, you may be able to retain your charity and company status. Contact the Charity Commission for help with this.

Avoiding a funding crisis

Some types of funding crisis are unavoidable. But you can put things in place to help your organisation manage any kind of funding crisis, and avoid an internal funding crisis altogether. In reality, this just means doing the basics of fundraising and organisational management well. In particular, planning, communicating, and managing.

Planning

- Overall strategic planning and business planning – the overall planning for your organisation that sets out your direction and future plans. Without this sort of overview, it is very easy to drift away from your mission
- Fundraising strategy – from the overall strategic or business plan for your organisation, you will develop and maintain a fundraising strategy that plans out how you will get the resources to do the work in your plan. As part of your fundraising planning, it is vital to keep building and developing your case for support, and the evidence that shows what needs you meet and what impact you have for your beneficiaries
- Income diversification – relying too heavily on one source of income can make your organisation vulnerable to a funding crisis if something happens to that source. A sensible long-term fundraising strategy for an organisation would consider the options for diversifying your income, and put strategies in place for developing those sources
- Reserves/unrestricted funding – if you can develop a plan that will enable you to build up some income as reserves for your organisation (ideally unrestricted reserves that do not have to be spent on any particular project or activity), you have much greater ability to manage through a funding crisis
- Exit strategies – you need to have a plan for what will happen at the end of a project or a funding agreement. If you plan to look for replacement funding, do this well before the current funding comes to an end
- Skills audits – throughout your organisation, you need to make sure that the personnel involved have the skills to do the tasks they take on. In general, you should ensure this for your staff and volunteers with good recruitment practice, and good ongoing management and support. However, you should also make sure that you have the skills you need on your management committee and that you use those skills effectively

A regular skills audit can help you keep track of what skills your organisation needs, and what skills it has collectively.

Communication

- Within your organisation – management committee, staff and volunteers. Without good procedures for communication and reporting within your organisation, you have a higher risk of internal issues like poor financial management going unchecked
- With members, service users/clients and supporters – it is a good accountability check on your organisation to have regular communication with your organisation's membership (if you have one), or with your service users or supporters. But it is also a good method of maintaining awareness of your work and your organisation. Should you ever have a funding crisis, this regular contact will make it much easier to get support from a crisis appeal or a campaign
- With funders, potential supporters and other key people and organisations in your field – in a funding crisis, you will have a much better chance of finding crisis funding or support if you have done the groundwork of making sure that your potential supporters know about your work. For example, local authorities and primary care trusts sometimes make funding available at short notice. You stand a much better chance of finding out about these grants and securing them if you are involved in the wider structures relevant to your area of work
- Networks and consortia – similar to the previous point, by being involved in relevant networks, you can find out what is happening externally that may affect your work, and plan accordingly.

Management

Put simply, effective management means having an overview of everything that is supposed to be happening, ensuring that the plans are implemented, that all the communication takes place, and that everyone involved has the support they need.

Sources of more information and support

The following organisations offer specific help, advice or expertise with aspects of dealing with a funding crisis.

The **Cranfield Trust** can provide free management consultancy support with things like business planning and financial management.

Tel: 0844 800 3390

Website: www.cranfieldtrust.org

Business in the Community's ProHelp programme is a national network of over 800 professional firms who provide free advice and professional support to the community.

Tel: 0114 201 3307 (for South Yorkshire Prohelp)

Website: www.bitc.org.uk/prohelp

Charities Aid Foundation offers a financial crisis helpline.

Tel: 0800 980 2000

Website: <http://tinyurl.com/cafcrisis>

Useful websites, information sheets and other resources

Fit4Funding help and advice section on 'When Funding Ends'.

Website: <http://tinyurl.com/f4fnext>

NCVO's Sustainable Funding Project website has various guides and publications on diversifying your income sources.

Website: www.ncvo-vol.org.uk/sfp

SYFAB has free Information Sheets on various related issues, including business planning, developing a fundraising strategy, financial planning.

Website: www.syfab.org.uk/infosht.php

Funderfinder has a brief information sheet on what to do in a crisis.

Website: <http://tinyurl.com/ffadvice>

Charity Commission Guidance CC12 – Managing Financial Difficulties and Insolvency in Charities.

Website: <http://tinyurl.com/ccpub12>

Voluntary Action Sheffield produce a useful information sheet on closing down.

Website: <http://tinyurl.com/vasclose>

The **Charity Commission** produces three guidance sheets on reserves.

Website: <http://tinyurl.com/ccpub19>

<http://tinyurl.com/ccpubrs3>

<http://tinyurl.com/ccpubrs5>

Further reading

The Directory of Social Change has several books available on related subjects, including 'Voluntary but not Amateur', 'Managing Without Profit', 'The Russell-Cooke Voluntary Sector Legal Handbook', 'Fundraising Strategy'.

You can also register for MyDSC on the DSC website for free, which enables you to access several free short information sheets on relevant topics.

Tel: 08450 777 707 (publication ordering line)

Website: www.dsc.org.uk

The **National Council for Voluntary Organisations (NCVO)** also publishes and sells many books and other publications on relevant topics.

Tel: 0800 279 8798 (publication mail order line)

Website: www.ncvo-vol.org.uk/publications

Fundraising in Times of Crisis

Kim Klein

This book is aimed at US-based organisations although much of the non-technical advice is just as relevant to a UK audience.

Website: <http://tinyurl.com/kklein>

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