Trends & data analysis

The Brexit effect: 5 ways to achieve financial sustainability

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Voluntary sector organisations continue to face increased demand for their services against a backdrop of funding challenges, shrinking public sector budgets and local authority cuts. And the Brexit effect is compounding the situation…

Last month, Sayer Vincent hosted a Brexit debate for charity leaders in partnership with Russell-Cooke solicitors and heard that many not-for-profit organisations have felt the impact of Brexit ever since the referendum vote, with funding losses and challenges stemming from the weak pound and labour market shortages.

The speakers highlighted that Brexit is a wake-up call for the sector. They also said it is an opportunity for renewal - a reminder for charities to focus on their duties, their beneficiaries and what's important. It's a time to review their financial strategy and look for new opportunities.

Given this, what are the main considerations for not-for-profit organisations to create a good financial strategy to address challenges and ensure sustainability?

1. **Understand the business model**
We recommend the first step for any charity is to take a step back and ensure it fully understands its business model. This involves looking at the current financial position, recognising the main risks and threats and, what resources are needed for the charity to fulfil its strategic objectives.

Some key questions that can help a charity determine this are:

- What are the organisation's main activities and how are they funded?
- What are the operating costs and current financial commitments, including any ongoing leases, subscriptions, and staff costs such as pension deficit payments?
- How flexible is the cost base? Does the organisation understand its fixed and variable costs?
- What is the relationship between income and expenditure? This needs to be considered in terms of the organisation's short and longer-term plans.
- Is there a good cashflow forecast to predict movements in the coming months?

2. **Understand the funding pipeline**
A charity also needs to understand its funding sources, how funding is evolving and how it might change in the future.

Organisations also need to avoid is putting all their eggs in one funding basket. There needs to be a range of different funding options to diversify income and reduce this risk.

Key questions for charities to think about are:

- Are there new funding opportunities and how can they be secured?
- Are there any threats to existing funding sources and how can these be addressed?
- What is the fundraising strategy and what are the plans for attracting and engaging new and existing donors?

3. **Sweat the assets**
Charities need to consider how best to sweat their assets and how they make the best use of the resources already available to them.

For example, could the charity reduce its office space and have more staff work from home, or move to a cheaper building, or is there an option to earn income from any free office space?

Another area to look at is the skills of staff and volunteers. Has the charity developed some in-house training that would benefit another organisation? Could staff carry out and charge for this training? Is the charity maximising the use of its trustees and volunteers, could any services be run by volunteers instead?

When considering assets, it's also important for charities to look at financing options and whether the finance could be structured differently to invest more in income generating assets, such as property from

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provide care, or support services, or retail such as a charity shop.

4. **New funding opportunities**
   Increasingly, charities are looking at alternative funding options such as crowd funding. This is good avenue for charities fundraising for a tangible and defined purpose, such as restoring a building or putting on an event. Crowd funding is most successful when a charity clearly understands its donors and there are clear goals and targets established over a short fundraising time period.

5. **Collaboration/mergers**
   Some organisations may consider changing their business model completely by altering the focus of their activities or collaborating or merging with another charity to reduce costs.

   This works best if the organisations are truly a good fit operationally and culturally, but even better if they a counter business model from a funding perspective. By collaborating or merging, both organisations can play to their strengths and together they are stronger.

   One of the big risks of financial insecurity is that it can lead to reactive behaviour and short-term thinking. But even with Brexit ahead, organisations don't need to panic. Instead, they need to take a step back, assess their financial situation and put in place a strategy that will enable them to meet the challenges ahead and take advantage of new opportunities.

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