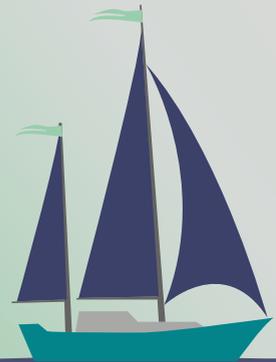


IVAR

Institute for Voluntary  
Action Research

# Thinking about Sustainability



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Supported by:  
Saxton Bampfylde

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#### **IVAR's Thinking about series**

IVAR's Thinking about series draws on research (our own and that of others) to provide practical, useful information for leaders and senior practitioners of voluntary and community organisations (VCOs), charitable trusts and foundations and public agencies. We aim to generate dialogue, encourage reflection and facilitate action by shedding light on tricky issues.

#### **Authorship**

Richard Hopgood and Ben Cairns, with Mike Aiken and Liz Firth, based on research and analysis carried out by the authors with Cullagh Warnock, Alison Harker and Genevieve Brooks-Johnson.

We would like to thank our interviewees for their contributions.  
For a list of people interviewed please turn to page 53.

## Contents

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4	<i>Our starting point</i>
6	<i>Overview</i>
7	<i>Part 1: Background &amp; context</i>
15	<i>Part 2: Sustainability in practice</i>
39	<i>Part 3: Reflections on evolution &amp; adaptation</i>
53	<i>Appendix 1: Interviewees</i>
54	<i>Appendix 2: References &amp; Further Reading</i>

*What does sustainability mean?*

*Is it a useful term?*

*What assumptions sit behind it?*

*How is it assessed?*

*How should the process of grant-making be adapted?*

## Our starting point

**We know from our work with small and medium-sized voluntary and community organisations (VCOs) that expectations and requirements for 'sustainability' can become a source of misunderstanding and difficulty in relationships with funders, and that a worthy aspiration can sometimes produce unintended consequences.**

Through a series of related studies carried out between 2012 and 2015, we have observed a growing tension between, on the one hand, charitable funders' encouragement, sometimes requirement, for something called 'sustainability' and, on the other hand, a turbulent operating environment for VCOs.<sup>1</sup> Our research has brought us into contact with more than two dozen trusts and foundations, as well as 200 front line VCOs, the majority of whom are at the smaller end of the sector in size.<sup>2</sup> All operate within the field of social welfare, working with people facing marginalisation and disadvantage in a range of areas, including: mental health; asylum and immigration; social care; homelessness and housing; community work; and advocacy.

More specifically, we have seen many independent funders use the concept of sustainability as a key element in deciding what and how to fund. This has become particularly marked in recent years as public sector cuts have changed perceptions of risk within trusts and foundations. The term carries many assumptions – that organisational survival is always “a good thing”; that organisational strength should be defined by balance sheets; that business models provide suitable analogues; and that fragility and transience are fixable “deficits” regardless of context and size. Sustainability is often applied by funders as a kind of diagnostic, in which the patient has little say, while changes in communities and how VCOs work with and within them are overlooked.

*As we noted in *Turning a Corner*<sup>3</sup>, ‘the scale and pace of change for these organisations is overwhelming.’ They are all experiencing ‘a bewildering set of challenges, characterised by complexity (for example, changes to the organisation and funding of public services) and distress (in particular, increasing levels of poverty and hardship amongst their users and beneficiaries)’. In addition, economic uncertainty and social upheaval have exerted two kinds of pressure: ‘First they are experiencing pressure to define their mission – who they are and why they exist. Second, they are having to renegotiate and renew external relationships (with key interest groups, collaborators and competitors).’*

**During our visits across the country to meet and talk to these front line organisations, we often hear about the huge importance attached to foundation funding and how, when it works, it can provide a lifeline and make a lasting difference. But, despite this, the hoops and strings associated with funding continue to make the experience, for many, difficult and unsettling. And, increasingly, sustainability appears to be central to those difficulties.**

<sup>1</sup> IVAR (2012) *Duty of Care: the role of trusts and foundations in supporting voluntary organisations through difficult times*, IVAR: London; IVAR (2013a) *Turning a Corner: transition in the voluntary sector*, IVAR: London; IVAR (2013b) *Thinking about Core Funding*, IVAR: London

<sup>2</sup> Generally, organisations with an annual turnover of less than £500k.

<sup>3</sup> IVAR (2013a) *Turning a Corner: transition in the voluntary sector*, IVAR: London. See also Reference 14

## Our process

**As a problem-solving research institute, we decided it would be appropriate to use IVAR's Research Development Fund to carry out an independent exploration of these difficulties.<sup>4</sup>**

We began by reviewing relevant literature as well as going back over the findings of earlier IVAR studies (see Appendix 2 for References and Further Reading). We supplemented this data with a small number of on the record interviews with senior staff from four small to medium-sized VCOs, and senior staff and a trustee from 12 trusts and foundations, of different sizes and with different national, sectoral and regional foci (all listed in Appendix 1).

**We were interested in what 'sustainability' means for them and whether it is a helpful term; what assumptions are behind it; how it is assessed; and how the process of grant-making might be adapted to take account of organisational fragility.**

As a starting point for this research, we understood 'sustainability' as 'having sufficient financial stability (e.g. reserves and diverse income streams) to continue into the future'. While we were not ourselves comfortable with this quite narrow understanding, it chimed loudly with findings from our own research, as well our own direct experience of what grant makers and grant applicants say.<sup>5</sup>

### *Terms and material*

- We use the term '**voluntary and community organisations**' or '**VCOs**' to describe organisations belonging to the: charitable sector; voluntary sector; community sector; voluntary and community sector; voluntary, community and social enterprise sector; third sector; non-profit sector; NGO sector; and civil society.
- We use '**funder**', '**trust**' and '**foundation**' interchangeably to refer to independent charitable trusts and foundations.
- Previously published material is referenced in Appendix 2. Interviewees have given permission for their comments to be identified and attributed; quotations are presented in italics.

<sup>4</sup>IVAR's Research Development Fund supports projects which are unlikely to attract external funding.

<sup>5</sup>Two members of the team previously worked in foundations: Richard Hopgood at Henry Smith Charity and Cullagh Warnock at Northern Rock Foundation; and Ben Cairns is an independent member of Comic Relief's UK Grants Committee.

## Overview

*In Thinking about sustainability we look at:*

### *—Background & context*

*What we can learn from previous research.*

### *—Sustainability in practice*

*What we have learned from our interviews and our own work over the last few years on how VCOs and funders experience and use sustainability.*

### *—Evolution & adaptation*

*How funders and grant makers might evolve and adapt their practices to be more nuanced in their application of the concept of sustainability and more supportive when seeking specifically to invest in and strengthen particular grantees and particular areas of funded work.*

*Part 1:*

*Background & context  
– what can we learn  
from previous research?*

*The term  
'sustainability'  
has multiple  
meanings when  
used in connection  
with the voluntary  
sector in the UK.*

# 1.

## Introduction

Our overview of the literature included consideration of material from academic journals specialising in the field; funding guidance by UK foundations; 'good practice' and position papers from UK infrastructure organisations; articles in the UK voluntary sector press; and relevant publications from some US sources.

# 1.1

## Multiple meanings

**We found the term is not well-explained and its meaning can differ according to where an organisation stands: government policy makers may define the term differently than a charitable foundation and differently again than a voluntary and community organisation.**

While financial aspects are prominent – particularly in the grey literature – the term sustainability can cover a range of equally or even more important additional, complementary or conflicting meanings.

These are analysed overleaf, no hierarchy is implied; the different meanings are not mutually exclusive.

## The term sustainability has multiple meanings

### Must or ought to become sustainable

The first set of meanings are normative in nature. The term is simply attached to statements or injunctions by policy makers, commentators, foundations or organisations as a 'good': VCOs **must or ought to become sustainable** with little explanation of what the term contains. A sustainable organisation, however defined, is 'a good thing'.

### Diversify income & create a 'business income' stream

The term is used as a code to encourage organisations to **diversify types of income** (grants + contracts + sales + fees, etc.) and usually carries **injunctions to create a 'business income' stream** to the work, to become more enterprising, to consider scaling up and to rely less on grants.

### A long-term organisational process

It often refers to **a long-term organisational process** – an organisation moves towards sustainability by a range of actions – and, as a result, sustainability is something that happens over the long-term: it is a journey.

### Financial & organisational survival

At the most basic level, sustainability is seen as **financial and organisational survival**, excluding all other issues e.g. mission creep, change of target beneficiaries.

### Avoiding over-reliance on restricted funds

Others use the term to refer to **avoiding over-reliance on restricted funds** – this might refer to government contracts with highly restrictive clauses about the work; it could also apply to direct fee income from clients and some types of commercial income.

### Organisational continuity

Some notion of **organisational continuity** is frequently implied, usually in relation to the existing mission.

### Organisational capacity for service delivery

For governmental agencies, the focus has tended to be on the sector's role in public services and, specifically, **organisational capacity for service delivery**.

### Continuance of a particular stream of work

A smaller number of sources refer to sustainability as the **continuance of a particular stream of work** rather than the organisation – and to ensure the quality and equity of this work for stakeholders, beneficiaries and communities.

### Internal organisational capability

Some approaches emphasise **internal organisational capability** – internal strengths to take a reflective, critical and analytic approach, which includes awareness of organisational resources, mission and beneficiaries.

### Adaptable to take advantage of the financial environment

In some cases, there is an emphasis on the degree to which an organisation is able and willing to be **adaptable to take advantage of the financial environment** and change with the times, including scaling up its work, loan finance, social impact bonds, engaging in mergers and strategic alliances, etc.

### Organisational characteristics

Some meanings relate to a series of **organisational characteristics** that are seen as constituting 'a sustainable organisation'. These might include, for example, a clear mission and aims; good governance; qualified and committed staff; sound leadership and financial management; adequate reserves; communication strategies; good marketing, etc.

### Collective local networks

There is also emphasis on the importance of **collective local networks – strong organisational interdependence** within a local ecology of social actors. This includes a stock of trust drawn from engagement, networks, and relationships which give the organisation reputation and legitimacy over the long-term.

# 1.2

## Views from academic literature

### The risks of diversification

Academic material about diversification includes specific arguments about scaling up, namely that it is not always a good thing and that having a multitude of different types of income streams can be difficult and disruptive to manage; and that the adoption of business models and techniques is not always appropriate as VCOs do not necessarily work like businesses:

*Private sector models of growth and revenue diversification do not directly translate in the non-profit world.<sup>6</sup>*

In addition, it is argued that revenue diversification can increase resource dependencies through having too many “masters”, as well as adding heavy layers of infrastructure and new costs to cope with the management requirements of different income streams.

### The importance of non-financial resources

Academic writers also comment on the importance of VCOs’ other resources, for example: links and mutual trust with communities; legitimacy with stakeholders, the community, volunteers and the public; networks and collaborative support. Some of these resources may be intangible – including the ‘very often underestimated social capital, including informal relations, local trust and voluntary engagement’<sup>7</sup> – and need careful nurturing. This leads some to argue for the idea of ‘social sustainability’<sup>8</sup> – assessed through organisational and advocacy capacities, service provision, public image and reputation – or a ‘sustainability formula’ of three primary dimensions: leadership, adaptability and programme capacity.<sup>9</sup>

### Unrestricted funding

Finally, the importance of unrestricted funding (and the problems which flow from its lack) is highlighted as part of wider discussions of sustainability:

*Financial stress is a given among non-profits and grant-making processes are part of the reason. They depend on highly restricted grant support that does not cover general operations.<sup>10</sup>*

In our own work in this area, we have previously commented that: ‘a lack of core funding can cause or compound other organisational challenges, including staff shortages, inappropriate premises and a lack of capacity to meet beneficiary demand’.<sup>11</sup> This links to other arguments that over-dependence on restricted funds is an indicator of potential unsustainability and an inability to undertake strategic planning and development.<sup>12</sup>

<sup>6</sup> Buteau, E., Brock, A. & Chaffin, M. (2013) Nonprofit Challenges: What foundations can do, Centre for Effective Philanthropy. <http://www.effectivephilanthropy.org/wpcontent/uploads/2014/07/NonprofitChallenges.pdf> [Accessed 10/8/2015].

<sup>7</sup> Evers, A. (2005) ‘Social enterprises and social capital’ In C. Borzago & J. Defourny (Eds.), *The emergence of social enterprise*. London: Routledge.

<sup>8</sup> Hailey, J. (2014) *Models of INGO Sustainability: Balancing Restricted and Unrestricted Funding*. INTRAC Briefing Paper 41, Oxford: INTRAC.

<sup>9</sup> York, P. (undated) *The Sustainability Formula: How Non-profit Organizations can Thrive in the Emerging Economy*, TCC Group. <http://www.tccgrp.com/pdfs/SustainabilityFormula.pdf> [Accessed 10/8/2015].

<sup>10</sup> Burd, N. (2009) *On the Money: The key financial challenges facing non-profits today and how grant-makers can help*, Grantmakers for Effective Organizations (GEO): Washington D.C.

<sup>11</sup> IVAR (2013b) *Thinking about Core Funding*, IVAR: London

<sup>12</sup> Ibid 8

*Three major themes emerged from our review of material in academic journals*

—*The risks of diversification*

—*The importance of non-financial resources*

—*The need for unrestricted funding*

*Part 2:*

*Sustainability in  
practice: The experience  
of VCOs & attitudes  
of foundations*



## *What VCOs said about sustainability*

## 2.

### What VCOs said about sustainability

We supplemented a review of our extensive earlier research in this area with a small number of interviews with front line VCOs. From both of these sources, eight key points were highlighted.

- *The new ‘normal’ – less funding, more need*
- *Keeping services running – what really matters is the work*
- *The pressure on management*
- *The costs of contracts*
- *The experience of assessment*
- *The need for core funding*
- *The need for longer-term funding*
- *The fantasy of self-sufficiency*

## 2.1 The new 'normal' – less funding, more need

The context for both VCOs and foundations has altered so dramatically since 2008 that expectations of, and attitudes to, sustainability need to be reviewed and updated. While many VCOs have long been used to living hand-to-mouth, with little security of income or space for 'strategic' planning, over the last decade profound structural changes have affected (and continue to affect) them in three significant ways. First, there have been deep cuts to public services, welfare expenditure and local authorities' budgets which have had an adverse impact on disadvantaged communities, resulting in increased need (e.g. for the local support services provided by VCOs).

*'Sustainability is important in the current climate on Mirehouse because austerity has really bitten here and there are lots of people on benefits which have been cut so there has to be a safety net. People have always struggled here but now there needs to be some way of making it easier for people to cope.'*

Keith Cartner, Roger Wynne, Janet Wynne, Moira Nesbit, Mirehouse Residents' Group

Second, there have been direct funding cuts to local VCOs as a result of the general downturn in welfare expenditure.<sup>13</sup> Third, the gathering shift in the mode of the co-ordination of social delivery towards market mechanisms has tended to favour larger organisations, often at the expense of locally designed, community-led approaches. The financial effect may be the most obvious (and forthcoming changes to fundraising legislation seem likely to create further problems), but we also heard about the impact on the morale and confidence of staff and volunteers, and their ability to serve their local communities. Indeed, when contracts change, the investment in staff in relation to values, practice and ethos can be lost to the organisation when staff become transferred to the new contractor.

For organisations operating in this space, sustainability is about a complicated mix of surviving cuts, finding new funders or sources of income, and balancing the pressure to do new things with the need to consolidate. It is about having the space to plan and to maintain networks which can provide intelligence as well as potential partners on what may be coming down the road:

*'Sustainability is about managing your growth and balancing the consolidation of your existing services. Demand creates sustainable businesses but too much demand can break a charity.'*

Kate Mukungu<sup>14</sup>

If context is not taken into account, it risks, for some, unfounded judgements being made about organisations by their funders:

*'Organisations do not necessarily fold because they didn't have good systems or they didn't do good forward planning. They might have had a tougher landscape through which to map their way.'*

Kate Mukungu

<sup>13</sup> Lloyds Bank Foundation for England and Wales (2016) Small and medium-sized charities after the crash: what happened and why it matters, LBFEW: London

<sup>14</sup> Kate Mukungu is former CEO of Tyneside Women's Health. Her views expressed here are personal.

## 2.2 Keeping services running: what really matters is the work

VCOs care about sustainability because they want to maintain and develop their services in increasingly needy communities:

*'Sustainability is about service continuation, which depends on the charity being there. [It] is important because the needs of other communities continue to grow and they have nowhere else to turn if we are not there.'*

Filsan Ali & Anne Pirie, Midaye Somali Development Network

There is a risk that less time (and even value) is given to the work itself than to organisational and financial features:

*'One of the things I think it is most important for funders to reflect on is that whether an organisation is sustainable is not necessarily related to the quality of the work, which is directly related to what happens on the front line with service users. I don't think funders spend enough time exploring that. What I am concerned about, and this can be in any sector, is if they focus on making sure all their systems are in place but aren't investing in the development and well-being of their people and the quality of their interventions – the organisation might be very "sustainable" and grow, but, if it isn't as good as it should be, that's a problem and I don't think people are paying enough attention to that.'*

Kate Mukungu

The work is the hardest thing to judge in terms of its quality and effectiveness: inevitably, much has to be taken on trust. However, it is what ultimately matters, and funders need to ensure that their judgements and decisions give primacy to the work rather than organisational features.

## 2.3 The pressure on management

VCOs talked of the pressures of cuts in public funding, short-term contracts (with more demanded for less), the need to evidence unit costs and outcomes without any additional funding to do so, and the suggestion from different quarters that they should find ways of self-generating income to reduce their “dependence” on public income and grants. They also talked of rising needs as benefit and service cuts bite, and parts of the local social and welfare infrastructure shrink and fall away. Managers face pressures to find new sources of income, as well as attend meetings about public policy and funding when they are not funded to do so:



*I don't spend anything near the time I used to spend overseeing service delivery. My job is now looking out, looking for opportunities, looking at figures and how to keep the show on the road. I am always looking for ways to shrink costs to manage cuts. You need to look as much at what you are spending as bringing in money – the sector needs to do more of that.'*

Kate Mukungu

## 2.4 The costs of contracts

The pressure of dealing with inexperienced commissioning staff who themselves are dealing with ever bigger workloads was highlighted, as was the difficulty of winning and then managing public service contracts with both public and private sector organisations, with their onerous reporting, focus on unit costs, penalties for missed targets and rigid accountabilities:



*If you want to do contracts then you need to gear up for that way of working – they are legalistic and can change your organisation's culture. Once funds are awarded by competitive contract, inter-organisational relations become less collaborative, more suspicious. When your funding changes as a result of competitive contracts, other organisations, who've won the funding, suddenly expect to take your staff through TUPE.*

*With a contract every three years the transaction costs of change are huge. With contracts, the cost of every interaction is priced – you can't afford to go over that – so the management culture is driven by the finance department and front line staff can lose control of how best to respond to a client's needs; small organisations may not score as well on unit costs but they are often better at empowering staff to do what needs to be done to achieve results for clients in complex situations.'*

Nick Dunne, Bede House

## 2.5 The experience of assessment

For VCOs, some elements of funders' assessments are absolutely intrinsic to their sense of themselves (e.g. need, values, connectedness), but what they need is funding and especially core funding to give management the capacity to lead and adapt in a time of rapid change, without becoming over-stretched and locked into "fire-fighting". Many of the elements which funders like to see improved –governance, diversification of income, better monitoring of outcomes, improved financial systems, strong external networks – depend absolutely on management capacity.

VCOs also crave more security and longevity of funding (in an environment in which public funding, even within contracts, is often awarded on an annual basis) because the needs they are addressing themselves often require long-term engagement. Funders who expect quick changes from short-term funding for long-term work are a particular frustration, as are the many funders who offer no feedback to unsuccessful applicants.

## 2.6 The need for core funding

For almost all of the VCOs that we have worked with, the real essence of 'sustainability' is about covering core costs<sup>15</sup> so that the management and back office can be maintained as the engine room of the organisation, and not become ever more over-stretched:



*The difficulty of accessing unrestricted funding is the biggest threat to organisations' sustainability. In the past, grants, as they used to be from the local authority, were seen almost as unrestricted because they were making a contribution to the organisation, so there was some flex with how you used the money. Now we have funding for outcome-based work and defined bits of delivery – so that has implications for us in terms of core funding.'*

Kate Mukungu



*Many funders only offer project funding. What is desperately needed is core funding. It is very difficult for grassroots organisations to plan ahead if they are inadequately resourced. Much of the work is by its nature long-term, e.g. FGM [Female Genital Mutilation] and mental health work which requires clients to be worked with sensitively over the longer term.'*

Filsan Ali & Anne Pirie, Midaye Somali Development Network

<sup>15</sup> In IVAR (2013b) Thinking about Core Funding, London: IVAR, we use 'core funding' to describe funding that contributes towards the core costs of running an organisation, including support costs (as defined by the Charity Commission's statement of recommended practice, or SORP4), income generation and governance activities.

## 2.7 The need for longer-term funding

It's also about having longer-term funding which has some symmetry with the longevity of the needs being addressed and which helps sustain the consistency and quality of the work:



*We do not want to be in a position where we have set something up which we cannot continue because the estate has been let down so often. You cannot make effective changes in three years and most funders only fund for 12 months. We have to think of the long-term.'*

Keith Cartner, Roger Wynne, Janet Wynne,  
Moira Nesbit, Mirehouse Residents' Group

## 2.8 The fantasy of self-sufficiency

Finally, what sustainability is not necessarily about is a fantasy of self-sufficiency, or creating what may be riskier and management-intensive forms of income:



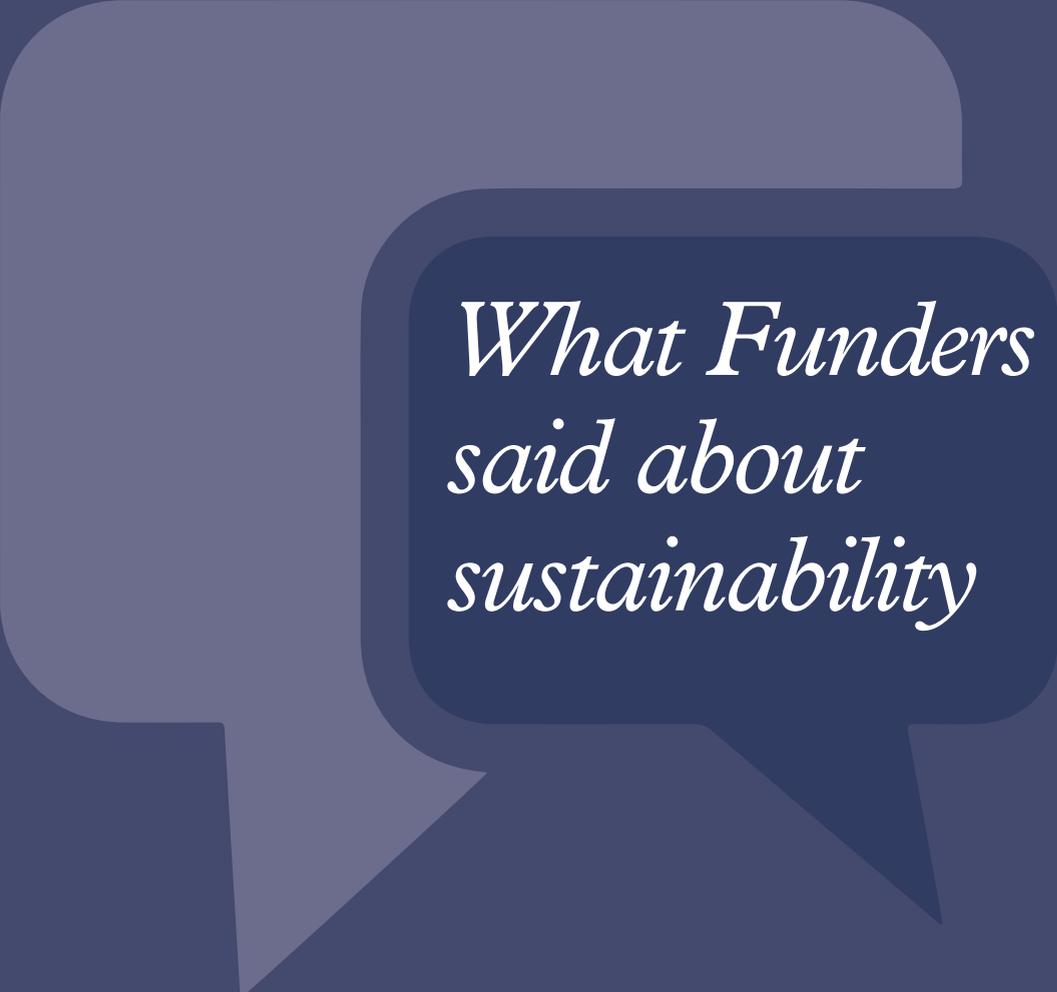
*You may be sustainable this year and not the next. The implicit agenda seems to be: "when will you stop needing to be funded by third parties?", but this is a dishonest position. Charitable activity is about helping people who can't buy services without a third party intervention. Some income is sustainable [e.g. from personal budgets where a client has control over their own care package budget] but in most situations you are making a case to a third party who has funds so that people who cannot afford to pay themselves for the service you offer can get the help they need.'*

Nick Dunne, Bede House



*Yes, we all need to be a bit more enterprising and get a mix of funding but in a time of austerity and shrinking resources of funding across the board – just how Richard Branson-like do people think we can be? People in the public sector come to us, ask about enterprise and say: "we know you aren't very good at that" – well, do you know that? I don't see you keeping a small organisation afloat with your wits.'*

Kate Mukungu



*What Funders  
said about  
sustainability*

### 3.

## What Funders said about sustainability

The funders that we spoke to highlighted seven key points in relation to their own thoughts about sustainability.

- *Sustainability in the new context*
- *Life beyond the grant*
- *Resilience and the capacity to survive*
- *Sustainability as a negative concept*
- *Sustainability as a concept drained of meaning*
- *Sustainability not always the priority*
- *Closure can sometimes be the best solution*

## 3.1 Sustainability in the new context

Funders too talked of “the new normal” – of continuing austerity and cuts in public expenditure. They agree the old model – of funding work so that it can prove its value and be mainstreamed into public funding – is, if not obsolete, increasingly irrelevant and, furthermore, subject to its own unintended consequences:

*‘A charity got a grant to scale up, professionalised, and when the grant ended it was in a worse position than when it started because it lost all its volunteers. It reminds me of the top hat model of development.’*

Paul Streets, Lloyds Bank Foundation for England and Wales

And they understand the new and relentless pressures on VCOs, not just to survive in their own right but to cope with the impact of cuts all around them. While they sense that conversations with applicants may need to change, not all are confident about how to make that happen:

*‘If we are going to talk about sustainability we need to understand the context in which we’re trying to sustain. In an environment of reduced resources, rising needs and the increased competitive culture of contracts – we need new ways of thinking and adapting, and new skills for organisations to thrive. For me, sustainability becomes about an organisation’s ability to understand, adapt and plan for its future. That’s very different from way back when we’d ask ‘what’s the exit strategy’ and the answer would inevitably be: “Well, hopefully they will demonstrate the impact in the middle of year two and the local authority will pick it up”. Of course that’s just not real anymore.’*

Gilly Green, Comic Relief



*‘The Foundation model is bust. Foundations have been used to providing funding which is “the icing on the marzipan”. That is no longer realistic.’*

Paul Streets, Lloyds Bank Foundation for England and Wales

## 3.2 Life beyond the grant

Funders care about sustainability in different ways. On a purely practical level, they want a reasonable assurance that organisations will have the ongoing capacity to deliver what the grant is funding for the duration of the grant (or at least for a period which covers each grant payment). Many define sustainability in ways which relate to a future beyond their grant (as we have already seen, this is a real pressure point given the challenges of replacing funding). They want to have some expectation that the work (or the organisation) will continue if it proves its worth when their grant comes to an end:

*‘It’s about the work rather than funding and how organisations sustain and adapt their work and, if necessary, bring it to a close.’*

Rob Williamson, Community Foundation Tyne & Wear and Northumberland

Others see it as finding alternative sources of funding (when the funding relationship comes to an end) and not being wholly dependent on grants:

*‘We try to get them from needing a grant to securing other grants or mainstreaming activities so that they eventually stop coming back to us.’*

David Carnaffan, Greggs Foundation

*‘For us as a relatively small funder, it’s more about educating small organisations to think about sustainability, how they maintain their activities on an on-going basis which is not dependent on grant funders, who should be there to maybe seed fund them, to keep them going while they are building up, to do extra things over and above what they regularly do.’*

Tim Cutts, Allen Lane Foundation

Some grant makers are more explicit about wanting their grant and engagement with a grantee to leave the organisation stronger at the end than at the beginning, and will offer additional support to help with organisational development:

*‘The key question is: have they got the structures in place to deliver what they do well?’*

Fiona Duncan, Lloyds TSB Foundation for Scotland

*‘The offer of additional support to build capacity and resilience is not just an afterthought – it’s core and essential.’*

Paul Streets, Lloyds Bank Foundation for England and Wales

Others see it in more existential terms, where grantees must understand the present well enough to plan the future, with funders taking more responsibility to encourage greater honesty:

*‘An essential feature of our grants is that they are not conditional, which means grantees can be honest about difficulties without fearing that the grant will be pulled.’*

Paul Streets, Lloyds Bank Foundation for England and Wales

## 3.3 Resilience and the capacity to survive

For some foundations, 'resilience' is a more relevant aspiration because it is more about coping with changes and shocks, without making any long-term assumptions. It is about managing all weathers, where retrenchment may be a better answer than growth:

*'Resilience matters more than sustainability. We fund organisations to become more resilient, to have the capacity to survive the future. Organisations need to be able to wax and wane so long as they are clear about their base line.'*

Christopher Graves & Nicky Lappin, The Tudor Trust

*'Sustainability would be about when the income was really secure – but this is quite simplistic. Resilience is when the organisation is capable of coping with fluctuations but sees this as a focus. You'll cope but you'll still have financial problems. So a resilient organisation will be a sustainable organisation.'*

Penny Wilkinson, Northern Rock Foundation

These attitudes link to an acknowledgement and tolerance of "fragility" and a willingness to take more risk where something new is being tried, especially in a climate where current models are being rendered financially unviable by public funding cuts. It can also be essential when an organisation may be the only local player in an area or sector of desperate need or is a critical part of the local community ecology:

*'We put money into a very fragile refugee sector because the needs were so intense – we could not leave these organisations without funding.'*

Penny Wilkinson, Northern Rock Foundation

*'We will support fragile organisations, if the people, vision and work are good enough.'*

Chris Batten, Francis C Scott Trust

*'We accept that some fragile organisations won't survive, and go with them so long as they are thinking about the future and there is some chance of a turn round.'*

Gilly Green, Comic Relief

"Fragility" is not necessarily the opposite of sustainability. Organisations are sometimes fragile because of the context and conditions in which they work: like plants which have adapted to poor soil they can be remarkably resilient:

*'We know things are fragile. We admire the transient. Fragility is a fact of life.'*

Christopher Graves & Nicky Lappin, The Tudor Trust

Equally, some organisations which look robust and strong can suddenly fail when there is a drastic change of circumstance and they are simply too big or do not have enough time to adapt. At the other extreme are organisations which are fragile by choice: they travel lightly because it is creating change which energises them rather than survival, and they are quite content to close and move on when their task is done:

*'Transience can be healthy. It's okay to fail if there is learning.'*

Rob Williamson, Community Foundation Tyne & Wear and Northumberland

## 3.4 Sustainability as a negative concept

A number of our interviewees were highly sceptical about the promotion of sustainability as a term which inherently privileges organisational strength and survival, when the focus really needs to be on the work. The effect may be to promote and reward models of practice which are not the best for beneficiaries but simply the best funded, at the expense of "creative disruption" by people trying out new ways of working:

*'You can't have a settled understanding of what sustainability is. It all depends what you are trying to achieve. Some organisations can become self-perpetuating and lose their sense of the wider systemic challenge. If you are obsessed with sustainability you won't disrupt. Creativity needs disruption.'*

Julian Corner, Lankelly Chase Foundation

*'One of our serious misgivings about the use of the word is that really for certain organisations, their aim should be to solve the problem, to put themselves out of business and there is something about sustainability that loses the spirit of that.'*

Fiona Duncan, Lloyds TSB Foundation for Scotland

And in the current context of a rapidly changing social ecology, sustainability too often carries unhelpful and unrealistic assumptions about the degree to which any VCO can plot and plan a route to long-term continuation:

*'It is probably quite unrealistic to talk about sustainability as something you can obtain if you follow certain steps. Sustainability is a state of being, and it's a thing which can change quite suddenly. For some VCOs, there are aspects of the markets they are in which can change quite suddenly – that's not like in business. There's no sense in which having followed all the steps it would have worked out – that's not true.'*

Penny Wilkinson, Northern Rock Foundation

## 3.5 Sustainability as a concept drained of meaning

For others, sustainability has become a shorthand for a negative form of risk management, or has simply been drained of meaning through over-use as a “feel good” word for both funders and funded, something to be ticked off on a checklist of things which have to be mentioned:

*‘I think there is a problem when people feel that if they don’t have a ‘sustainability strategy’ or an ‘impact measurement tool’ that they are somehow failing. For us, risk is really assessed and managed through relationships. The model is really this: we commit, we learn, we refine. And we learn by listening. The way we invest is an expression of values and how we see ourselves fitting in; and how we think we work best is through committing, learning and refining. In part that relates to a sense of responsibility we feel for the organisation’s wellbeing.’*

Trevor Pears, Pears Foundation

*‘There is some sense that applicants are adopting the language of sustainability because they have made a judgement that, during uncertain times, funders are more preoccupied about the state of health of an organisation and therefore there is a greater need to reflect the preoccupation of funders.’*

Fiona Duncan, Lloyds TSB Foundation for Scotland

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*It has become a jargonistic word without deep reflection behind it. For us, the priority has to be more than just organisational survival.’*

Jo Wells, The Blgrave Trust

## 3.6 Sustainability not always the priority

For some funders, the sustainability of the organisation is not the be-all and end-all of their assessment. For experimental work, it matters that an organisation is there long enough to see the work through to the point where learning can be distilled and applied, but the organisation is simply the vehicle – success might be passing the model onto others who can use it on a larger scale. For other work, in a fast changing environment where funding can grow and recede with little warning, organisations may need to wane as well as wax, or merge or close rather than limp along ineffectively. Funders can help by encouraging the most creative solutions which are in the best interests of beneficiaries:

*‘If a grant achieves good outcomes only for the period of the grant, isn’t that good enough? If 5% don’t fail, we have failed: you need to be taking enough risk to have some fail, if you don’t you will miss the gems.’*

Chris Batten, Francis C Scott Trust

*‘We have to take risks if we are really going to be a funder that takes account of context and wants to try and do something about tricky issues. If you are prepared to take risks on a new idea that could have an enduring impact, but if fragility is there, you need to think about how you can responsibly support that and add value to those goals and those ambitions for change.’*

Jo Wells, The Blgrave Trust

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*We are not looking for a plan but somebody on a journey.’*

Julian Corner, Lankelly Chase Foundation

## 3.7

### Closure can sometimes be the best solution

Finally, linked to these concerns, we also heard a view that sustainability carries an implicit assumption that continuation is success and closure is failure. However, many funders recognise that there are occasions when closure is the best way of securing the future of good work (for example, by transferring remaining assets to an organisation better equipped to continue or transition the work).



*There should be a need and a justification for an organisation's way of addressing need, and a resilience and adaptability, including the ability to recognise when their time is over. Some charities adopt very rational processes to close down. For example, Them Wifies transferred viable activities and the associated intellectual property to organisations, having been unable to secure sufficient funding to sustain the charity at a viable size.'*

Rob Williamson, Community Foundation Tyne & Wear and Northumberland



*We can support organisations to close down in a way that is considered and positive, with care taken to hand on clients.'*

Christopher Graves & Nicky Lappin, The Tudor Trust

## Assessing for sustainability – current practice

Sustainability does not loom large in foundations' published application procedures and criteria as a consideration in its own right, but many of the general assessment criteria used by funders were cited in our interviews as relevant to an assessment of sustainability:

### Leadership (key people)

*'A very able key person can overcome almost every other fragility.'*

Chris Batten, Francis C Scott Trust

### Mix (length & risk) of funding/reserves

*'No income is without risk but an organisation with a multi-faceted income can be more flexible.'*

Christopher Graves & Nicky Lappin, The Tudor Trust

### Governance

*'Where ideas fail, we increasingly see that it is the organisation which has failed through problems of leadership and governance. You can't separate the two.'*

Julian Corner, Lankelly Chase Foundation

### Need

*'Our first and foremost consideration is whether an organisation is uniquely meeting needs.'*

Chris Batten, Francis C Scott Trust

### Adaptability

*'We are interested in organisations that can demonstrate some kind of capacity to respond to changing context.'*

Jo Wells, The Blgrave Trust

### Connectedness to community & beneficiaries

*'We look for organisations who can draw on their original well of support and can show their connectedness and how they listen to what beneficiaries want.'*

Christopher Graves & Nicky Lappin, The Tudor Trust

### Stage of development

*'The discussions differ according to where organisations are and where they want to be.'*

Christopher Graves & Nicky Lappin, The Tudor Trust

### Values & mission

*'Having a strong sense of who you are and who you are there for is probably the most important thing when we consider need.'*

David Carnaffan, Greggs Foundation

### Capacity

– Including volunteers

### Impact of work

– e.g. outcomes (and how monitored)

### Strength of networks

– e.g. with local communities, users of services, other providers, etc.

*Part 3:*

*Reflections on  
evolution &  
adaptation*

*Good work matters more than good organisations and there should be a place for idiosyncrasy and fragility if the work itself has a tangible freshness and energy.*

## 4.

### New ways of thinking

**Here, we consider the benefits of new ways of thinking about sustainability as a way of assessing and overseeing VCOs in funding relationships, or of setting it aside in favour of treatment and expectations better suited to organisational context and circumstances.**

Many of the difficulties which flow from the varied uses of sustainability involve a misalignment of expectations and intentions. It is as if, within the sea of funding, two contrary tides are colliding – the one concerned around intentions, outcomes and organisational capacity, and the other involving unstable funding, rising demands and shocks and surprises. Funders know well enough about shocks and surprises from financial markets, but can sometimes apply different norms of intentional order when it comes to the working environment of VCOs. When tides cross, the result can be turbulence and unexpected currents which defy the best of intentions to proceed in a straight line.

It seems both reasonable and essential that funders ensure that assessment systems are not too skewed to strong and well-ordered organisations, rather than the quality and creativity of the work. Good work matters more than good organisations and there should be a place for idiosyncrasy and fragility if the work itself has a tangible freshness and energy. And, in the current environment, organisations which “travel light” may be more adaptable and agile.

Other steps can also help move the discussion away from, at best, a series of tests and, at worst, traps, to something more collaborative and enabling, focused on “the ultimate beneficiary”.

# 5.

## How all funders can help

**Whatever views funders have on sustainability, all want to see their grantees do good work with their grant, delivering benefit to the people or causes they serve.**

Small and medium-sized VCOs consistently talk about three ways in which all funders can help them deliver responsive and effective services to their beneficiaries within an increasingly complex and uncertain environment. We list these below.

### Funding core costs

The one golden rule which everybody can follow in funding smaller VCOs is to fund core costs where this is the greatest funding need. At the very least, funders should be willing to ask VCOs what they most need, or signal a willingness to be flexible about how a grant is applied if circumstances change:

*'The key for us is helping organisations do better what they do well. Generally speaking, that leads to funding core costs because the huge advantage of unrestricted funding is that it assists the organisation to do what it does well.'*

Trevor Pears, Pears Foundation

### Stability to deliver

Long-term challenges need long-term funding, which is even more important when so many public funding streams are becoming more short-term and unpredictable. It would make an enormous difference if more funders were prepared to offer longer-term funding – whether agreed at the start or by taking a positive attitude to continuation funding, with clear guidance on when and how this might be achieved.

It would also be very helpful if more funders were prepared to consider continuation funding as a mark of development and success rather than a sign of dependency:

*'As long as you are confident about the relationship and believe in the issues being tackled by the organisation, why would you stop funding?'*

Trevor Pears, Pears Foundation

### Grantee-led support

While grantees welcome advice and support from funders, many do not feel in a strong position to negotiate for the kind of support they most need or the additional capacity that would enable them to take advantage of it. It is particularly important that funders seek to recognise what it is that enables an organisation to do good work and, if/when using “funding plus”<sup>16</sup> to help strengthen the organisation, make sure that this support will strengthen the work. System improvements involving heavy ongoing demands on staff can weaken the work if they take away resources from it.

VCOs also need funders to apply appropriate models when considering whether and how any organisational “weaknesses” might be remedied and take into account the stage of an organisation’s development. Generic and untested assumptions (e.g. about scaling up and diversifying income) should not cloud judgements about what is best and practical for a VCO in its specific situation and capacity.

## Continuation funding

**There are four simple questions which funders might ask themselves when considering continuation funding:**

- 1. Is the area of work still a funding priority for you?*
- 2. Is the organisation still doing a good job?*
- 3. Does the organisation still need your support?*
- 4. Is there another organisation which is demonstrably better and which might achieve more with your funding?*

**If the answers are Yes/Yes/Yes/No, then it would seem logical to offer continuation funding. Funders need to resist the tendency to prefer the new over the familiar just because it is new.**

<sup>16</sup> IVAR (2011) *Beyond money: Funding plus in the UK*, IVAR: London

# 6.

## What are funders trying to sustain?

*A single definition of sustainability does not appear to be realistic, nor do we think it would be helpful. What matters most is that foundations:*

- Are crystal clear about what they mean by “sustainability”*
- Design their approach to funding and engagement to support it*
- Communicate this unambiguously to applicants, particularly in grant application guidelines*

“

*Sustainability is a fine concept in principle, but its usefulness depends on what is being sustained: the organisation, the network of relationships, the key people, the dispersed leadership, the mission, the approach, the focus on the beneficiary, the process of evolution and development, or the learning. This will be entirely different in different scenarios, and a good funder should be attuned to asking (themselves and others), what needs to be sustained here? The ability to ask wider questions about sustainability requires something more strategic of the grant maker, and to have a different kind of conversation with the grant seeker.’*

Julian Corner, Lankelly Chase Foundation

# 6.1 A framework for funders to think about sustainability

Beyond being clear about their definitions, both funders and grantees need to make more specific judgements about what they are trying to sustain – and how best to go about this. The following framework offers a range of categories which may be helpful.

## *Sustaining the organisation*

An organisation may have a key role in a locality or sector because of what it is and what it does; its network of relationships (including the trust of hard to reach communities); its key people; its ability to be a nimble, challenging actor in areas of social policy and its potential to change systems; the long-term impact and nature of its work; and the fact that it may have better prospects than others. If the organisation is what needs to be sustained, then longer-term core funding is likely to be the right answer.

## *Sustaining the values*

This may involve exemplary work on beneficiary voice or inclusion; a willingness to speak truth to power; and to fight for the values of local people and communities and strengthen the agency of beneficiaries. Those values may reflect a history and particular people and relationships which are at risk, both from market forces and the erosion of a local community infrastructure. Again, long-term core funding may be the best form of support, perhaps allied with support for learning and sharing their values and experience.

## *Sustaining a model or way of working*

The work (project) needs to be supported and funded in a way which provides stability and continuity. However, no work exists in a vacuum and funders should take a holistic view and be prepared to help if there are organisational problems which could destabilise the project. The right funding mix might be project funding plus help with evaluation and – where there are acute organisational needs – some core funding (or in kind assistance) to support the management and help the organisation to assess the future development of the work, and who is best placed to carry it out.

## *Sustaining the focus on the beneficiary*

Over reliance on targeted funding streams can make it difficult for small organisations to deliver holistic services to their beneficiaries. Funders can sustain this broader approach by framing their funding in a way which is specific to the beneficiary and which is realistic about what needs to be funded (which may require a higher level of grant if other funding streams have been cut).

## *Sustaining the process of evolution or development*

This may apply to an idea, or a key individual, or a model of work. It is more likely to be about developing what already is, than funding the embryonic. It may also be about supporting people with exceptional potential. This may involve short-term developmental funding which includes access to consultancy or other help.

## *Sustaining the learning*

This may apply to experimental/high risk work where the learning to be distilled and disseminated is (or might be) of particular importance. Funding therefore needs to focus on enabling that to happen (and particularly the dissemination, which needs proper resourcing).

# 7.

## Getting the relationship right

**Critical in all this is getting the relationship with VCOs and grantees right. A reasonable guiding principle is that relationships need to be realistic and balanced; the intrinsic power of funders should not be abused; and honesty ought not to be penalised.**

What is “right”, however, will then depend on the capacity of the funder as well as the grantee and on the nature and intention of a grant. Funders need to reflect on their own capacity, and not over-complicate life for themselves and their grantees if what both most need is simplicity. For many VCOs, the most supportive thing an independent funder can offer is core funding for a reasonable period with light touch reporting requirements, and a sympathetic ear if things don’t go to plan – not least because this is so different from the onerous and rigid requirements which often accompany public funding. This simple model builds resilience.

The basis of any strong relationship is mutual honesty, and trusts should review in this context their “standard conditions” for multi-year grants and their grant management, to ensure these do not inadvertently discourage openness about difficulties. Grantees need to feel they can disclose changes and variances in “performance” without the fear of immediately putting future payments at risk, or being subjected to excessive and prolonged scrutiny. Sometimes staff who are the main point of contact for grantees can apply procedures or approaches differently and more rigidly from their senior colleagues and trustees, making life unnecessarily stressful for VCOs under acute pressure.

Not everybody has the time or skills to pursue “relational” rather than “contractual” funding, but where this is appropriate and both sides want it, it can pay rich dividends. “Relational” funding places value on the contribution each partner brings: the knowledge of context and needs that the funded organisation possesses and the resources, overview and convening power of the funder. When there is space to foster openness and develop trust, we have observed a virtuous circle in which both organisations are better able to realise their goals.

If funders treat applicants and grantees with respect, if they recognise that applicants and grantees have assets (for example, activities, services, reach, trust, legitimacy, practice, knowledge, expertise) that have intrinsic value and significance, then our experience is that their trust will be repaid by an intensity of effort and commitment. It can’t be too complicated to realise that people perform better if they are given a measure of autonomy and are met with praise and appreciation.

It is encouraging that a number of foundations now recognise that, during a period of such heightened uncertainty, this kind of symbiosis in funding relationships has real value.

*‘If I think about it, sustainability and resilience are no brainers in that if you are wanting to help organisations do what they do well, that implies you have an in-built interest in their wellbeing. If you grow your support and invest time and effort in the relationship, I think that de facto that means you are supporting their resilience and sustainability. Our intention is to go on a journey and not make a series of short-term interventions. We see ourselves as making an investment in the organisation, but we’re not passive – we feel we are part of their story.’*

Trevor Pears, Pears Foundation

*‘Sustainability is a means to an end, and for us the end is the ideas, values and vision which can help others frame a different kind of future. In this context, sustainability can be problematic as a guiding principle. The most sustainable thing we can offer is investment in highly trusting relationships with people who want to work together to build solutions. For us, the best people are really good at building those relationships.’*

Julian Corner, Lankelly Chase Foundation



*‘Really the most important thing is some of the bundle of things which sits beneath a broad understanding of sustainability, such as having a clear sense of identity, mission and purpose and direction and desired benefits. It is those things which matter, those things that should be encouraged and supported and all of that should take place within the context of a deep appreciation of how complex, challenging and uncertain the current operating environment is for applicants.’*

Fiona Duncan, Lloyds TSB Foundation for Scotland

*If one is clear about what is worth sustaining, the concept can still be helpful. The challenge, then, is to move to a more nuanced and thoughtful approach.*

## 8.

### Concluding remarks

*We began this study both sceptical and concerned about how funders were using ‘sustainability’. Our instinct was that, as a term which had ceased to be useful, it should no longer be used.*

*However, sifting through the literature, our own research, and the thoughtful contributions to this report, we have concluded that, if sustainability is simply junked, it will re-emerge in other terms, not least because in its most useful form it matters for grantees who are desperate not to let down their beneficiaries. If one is clear about what is worth sustaining, the concept can still be helpful. The challenge, then, is to move to a more nuanced and thoughtful approach.*

## Appendix 1: Interviewees

- Filsan Ali & Anne Pirie, Midaye Somali Development Network
- Chris Batten, Francis C Scott Trust
- David Carnaffan, Greggs Foundation
- Keith Cartner, Roger Wynne, Janet Wynne, Moira Nesbit, Mirehouse Residents' Group
- Julian Corner, Lankelly Chase
- Tim Cutts, Allan Lane Foundation
- Fiona Duncan & Elaine Watson, Lloyds TSB Foundation for Scotland
- Nick Dunne, Bede House
- Christopher Graves & Nicky Lappin, Tudor Trust
- Gilly Green, Comic Relief
- Kate Mukungu, (former CEO of Tyneside Women's Health)
- Trevor Pears, Pears Foundation
- Paul Streets, Lloyds Foundation for England and Wales
- Jo Wells, Blagrave Trust
- Penny Wilkinson, Northern Rock Foundation
- Rob Williamson, Tyne & Wear Community Foundation

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