RISK MANAGEMENT
GUIDES FOR CHARITIES

Future proof
Ensuring the sustainability of your charity

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Here today, here tomorrow

A dictionary will tell us that sustainability means "the ability to be sustained, supported, upheld, or confirmed". But what do these words mean in practice? And how do they inform the work done by organisations with a social purpose?

To be sustained means to continue to exist, now and in the future. Against a rapidly changing social, economic and political backdrop, the ability to adapt is vital in order to do this. When it comes to being supported, upheld or confirmed, I think of a charity's stakeholders. For me, this means an ability to respond to shifting needs, be it those of donors, beneficiaries, or commissioners.

Having just come through a significant election, we are understandably facing a period of uncertainty. Yet amid the many questions about the relationship between government and the voluntary sector, about the economy, policy or regulation, there is one certainty: that organisations with a social purpose must adapt in order to survive.

It is fair to say that the voluntary sector has undergone a profound level of change over the past few years, and there may still be a way to go as public-sector austerity continues to bite. With change inevitably comes new risks. Risk should not be feared – if understood and managed correctly, it can create new opportunities and breed innovation. Whether this is done by diversifying income streams, launching a project, reaching out to new audiences, or discovering how technology could better support service users, adaptation is at the heart of a sustainable sector.

As the contributors to this guide demonstrate, adaptation doesn't mean changing what you do, or giving up what you stand for. In fact it is quite the opposite. For a charity, understanding its purpose and the problem it exists to solve is the foundation of longevity, and the necessary starting point for innovation strategies that really work.

This practical guide forms part of an ongoing series. Visit our online partner zone to take advantage of these fantastic free resources: ***theguardian.com/voluntary-sector-network-zurich-partner-zone***

We are keen to hear how charities are handling some of the challenges covered in this guide. Please feel free to share any feedback with me by email: ***amy.brettell@uk.zurich.com***

Amy Brettell is head of charities and social organisations at Zurich Insurance

The laws of adaptation

Finding a long-term future means being open to change, but going at the right pace for your organisation is important, says Amy Brettell

One word that I associate with sustainability is "relevance". For a charity, relevance doesn't simply mean meeting a social need, it also means evolving as that need evolves. This requires creative, long-term thinking. So what are the risks and opportunities inherent in being open to change?

New ways of working

As a recent study by Zurich shows, one of the biggest sustainability concerns for charities is income. As a result of ongoing public sector austerity, we are seeing a major shift in business models, with charities moving away from a traditional funding model to more diverse income-generation models.

Funding streams have often taken creative forms – just think of the charity shop. It is believed that the first ever charity shop was established in my home town by Wolverhampton Society for the Blind (now called the Beacon Centre for the Blind) in 1899, and now they are a fixture on every British high street.

Today, we're seeing an expansion of commercial services related to a charity's core mission. Action on Hearing Loss, for example, provides products, training, work-based assessments and consultancy services to the private and public sectors, as well as individuals. These products and services make organisations more accessible to people who are deaf or hard of hearing.

Another example is The Conservation Volunteers, which entered a partnership with Moshi Monsters (a popular children's gaming website) to encourage children to get active outside by developing a range of gardening tools and seeds, supported by a Helping Kids Grow website.

> "Bringing in different skillsets can be a great way to tackle sustainability challenges"

Other sustainability strategies can include partnerships, such as collaborating to deliver a particular service, the sharing of office spaces and back-end facilities, or even a merger. Technology is also providing a vehicle for charities to design and deliver their services in a way that is responsive to users' needs. Jointly, a messaging app designed by Carers UK (see page 13), is a great example of this.

Mind the gap

Embracing innovation and new ways of working are already playing a major part in the sector's sustainability, and will continue to do so.

But this comes with its challenges. For example, there are risks inherent in partnerships and collaboration. Working together can mean cost savings and greater efficiency, but it is important to know where the liability sits within a contract. Who is responsible if something goes wrong?

New ways of working can also pose challenges for reputation. Public trust can be a charity's most valuable asset, so it is vital to make sure that new partnerships or business models do not cause deviation from its core purpose.

Bringing in different skillsets can be a great way to tackle sustainability challenges. For instance, how will a charity know if a new app could improve its services if it hasn't got the in-house skills to evaluate the opportunity? There is, however, a risk here around organisational readiness if the internal culture is not conducive to different ways of problem-solving. Externally, too, be aware of your core audience and supporters who may feel alienated if your work takes a new tone or direction.

Adapting too quickly and too slowly both generate risks. Change too fast and a charity may not have the right structures and governance in place to make that change sustainable. Change too slowly and the charity may fail to stay relevant, or meet its stakeholders' needs effectively. Talented staff with new skills may fail to find traction and move on.

Taking action

If finding a balance between boldness and caution sounds complicated, that's because it can be, but it is not impossible - far from it. The question "Is this sustainable?" should sit comfortably within any risk-management strategy that a charity has in place. The assessment of risk should keep both the short term and long term in focus. Take insurance, for example. Purchasing a cheaper policy may make sense against day-to-day budgets, but being underinsured will cost a charity more in the long term if it has a claim which it is not covered for.

Scan the horizon for emerging risks and opportunities both inside and outside the voluntary sector. Organisations such as the World Economic Forum offer a wealth of thinking with regard to emerging risks. Observing developments in other sectors can also spark ideas and new ways of problem-solving. Importantly, don't be afraid to test and learn. Trialling something new, even if it doesn't achieve perfect results, can be the best way to find out what works.

It has often been said that a charity will have succeeded in its mission when it is no longer needed. When homelessness is eradicated, education made accessible for all and cancer cured. Yet this belief is not incompatible with sustainability, if we think back to our earlier definition of relevance. Even in an ideal world, there will always be a need for organisations with a social purpose, so long as they adapt to the needs of the society they serve.

Amy Brettell is head of charities and social organisations at Zurich Insurance

TOP TIPS

Look ahead: short-term decisions must be balanced with long-term vision

Be guided by the past: what lessons can your organisation learn from previous experiences, and how can this shape what you do next?

Assign accountability: who is responsible for horizon scanning? With the focus on day-to-day survival, it can be easy to forget to look ahead – give people specific accountability for this

Diversify your thinking: problems aren't solved by asking the same people the same questions, so try looking outside core decision-makers. Could service users offer input, for instance?

Find the right speed: rapid changes can fail due to lack of internal or external readiness, but failing to innovate means an organisation could end up falling behind

Built to last

Finding the right business model for services is critical to their sustainability. Uscreates' Joanna Choukeir explains how to do it

All organisations across sectors need to secure resource – whether people or material – to deliver their products and services. Similarly, all organisations benefit from generating a surplus, whether they retain it as pure profit, reinvest it in their organisation, donate it, or do a combination of these things.

Business modelling is often associated with the private sector. However, it also offers immense value to the public and voluntary sectors to help them ensure their work is both financially and socially sustainable, and that it generates a surplus.

Over the last five years we have been approached by a growing number of not-for-profit teams for business modelling advice. For example, we helped The Children's Society to design a financially-sustainable service called "Grow with Play", which supports disadvantaged families to improve home-learning with their children.

Business modelling is not as complicated as it often seems. The social business model canvas, developed by the Young Foundation, is a great tool for charities to get them started. It is based on the model featured in the book and website, The Business Model Generation. Taking this model as a starting point, there are several key questions that charities need to consider when planning the sustainability of services and their social impact:

What is the macro-economic environment?
What are the economic, social and technological changes taking place that may affect your charity now and in the next five to 10 years? Who are the other key players in your space, and why are you different and better? What is your theory of change, and how is that theory likely to be affected by shifts in the macro-economic environment? Answering these questions requires investing time in desk research, conversations with key people, reflection and planning.

Who are our customers?
Who is your charity reaching, benefiting or serving? We call these "customer segments". Try and get as clear a picture of these customer profiles as possible to understand their motivations and barriers, and shape your offering to meet their needs. Social research methods such as in-depth interviews and focus groups are excellent at helping you know who your customers are and the channels to best reach them.

What is our social value proposition?
A clear understanding of your segments means you are able to tailor a social value proposition that customers are more likely to engage with, be it a public awareness campaign, or a programme that you're looking for businesses to sponsor. Early testing of a new proposition with a small group is fundamental to reducing its risks, and to ensure it is delivering something of value to them.

Can we generate revenue?
Grants and fundraising schemes are great revenue streams, but they are rarely sustainable. Any new idea needs to include a plan for financial sustainability. This means identifying a long-term customer segment that will pay for a proposition, such as consultancy services, training, research reports and premium access to a product. The possibilities for innovation here are endless.

How will we keep costs down?
Once you are clear on your charity's social value proposition and your revenue stream, operations need to be refined to ensure they are efficiently delivered at a cost that your organisation can afford. It is worth considering whether aspects of operations may be outsourced to key partners or brought in-house to deliver cost efficiencies. Other ways that charities can reduce their costs include merging systems across charities, sharing or renting out workspaces, flexible working and adopting a four-day working week.

What will we do with our surplus?
More surplus means more opportunity for innovation, research, development, growth and, ultimately, social impact. So what does your charity plan to do with its surplus? Business modelling for a charity requires a paradigm shift from needing to "break even" to aspiring to secure the surplus needed for constant innovation, and for growing the capacity and capabilities of the charity so that it can better deliver on its vision.

Joanna Choukeir is chief operating officer at Uscreates

Case study

How to innovate

Teach First says that loving the problem before designing a solution is the secret to innovating sustainably. Chloe Surowiec explains how it works

Teach First started as an idea aimed at ending educational inequality. We set up our innovation unit in 2012 to inspire and nurture other great education solutions. The unit incubates and accelerates the most promising innovations with the potential to fundamentally change the education system.

We work with 20 start-ups, and while their legal forms vary – charities, community interest companies and social businesses – the risks they face don't. Sustainability is one of these risks. But for us, ensuring financial security should not be the starting point; ensuring impact should be the number-one priority.

And when it comes to having maximum impact on the education system, knowing how to innovate successfully plays a big part. That's why our innovation unit has developed an approach that puts "the problem" at its centre. Researching and understanding the ins and outs of a problem provides the requisite foundation upon which to design, build and test the innovation that will eliminate it. We call it "loving the problem, not the solution".

Take Jess Barratt from Franklin Scholars, the youth-led education initiative's founder and chief executive, who joined the unit for an innovation weekend in 2013. Barratt chose to focus on understanding the negative impact that the transition between primary and secondary school can have upon students experiencing low self-esteem, and the potential solutions to tackle it. She developed the idea of a coaching model whereby year-10 students coach under-confident year-7 students through what, for some, is their most challenging year. The unit has now incubated Franklin Scholars for 18 months. The sustainability of Barratt's venture speaks for itself: she is currently partnered with seven schools and is optimistic that this will double from September 2015.

At Teach First, we've learned that a well-designed solution to a fully understood problem will be sustainable, and ultimately scalable. It will meet an unaddressed need in the education marketplace that commissioners will pay for and stakeholders will support.

Chloe Surowiec is head of innovation partnerships at Teach First

TeachFirst INNOVATION

A securely funded future

In 2012 the Canal & River Trust undertook a major transformation from public corporation to charity. Ruth Ruderham, the trust's first head of fundraising, explains how it developed a sustainable strategy

The Canal & River Trust was launched in July 2012 when the former Defra agency British Waterways made the historic leap from public corporation to charity. The new charity became the guardian of 2,000 miles of inland waterways in England and Wales. Caring for a 200-year-old network meant that long-term sustainability was at the heart of the charity's thinking from the beginning.

A secure foundation

Government spending cycles are not geared to the long term, and the move to the charitable sector immediately offered an opportunity for the Canal & River Trust to break out of short-term financial thinking. The result was a 15-year government funding contract that gave the trust certainty of base income, and allowed it to plan its core spending much more cost-effectively.

However, it has always been commercially earned income, not government funding, which has provided the trust's primary support. When the new charity was formed, it was not only the responsibility for the waterways that was passed over, but also ownership of the canals, towpaths, docks and the land and buildings adjacent to them. This created an opportunity for a property endowment that is used to protect our national heritage and generate future income.

Diversifying income streams

We have hugely diversified earned-income streams – from boat licences, commercial moorings and the provision of utilities, to imaginative schemes such as a partnership with GlaxoSmithKline that sees the company using canal water to heat and cool its canalside head office. We also have a significant property development portfolio that includes everything from leasing land to entering into joint ventures to create new canalside developments.

The combination of contractually-guaranteed income and a property endowment meant the Canal & River Trust was able to plan for the future in a way that British Waterways never could.

Winning new supporters

Growing new sources of income was the first of our plans for the future, and the new charity invested significantly in growing a sustainable income base of individual givers.

Two and a half years after the launch, the charity has more than 10,000 active regular donors and has attracted more than £3.5m in new income from the public, grant-making foundations, companies and private philanthropists. The market for donor recruitment is highly competitive – so how did we do it?

> "From a standing start, the trust is on track to meet its ambition of securing £10m a year of voluntary income each year within its first decade"

Telling a compelling story through face-to-face fundraising played an important part. We located our fundraisers at key sites along the canals to talk to visitors who were enjoying the pleasures of being by the water. Many charities struggle to explain their work succinctly on the street because the money raised and spent may take place thousands of miles away. It is therefore important that our fundraisers take advantage of being situated right in the middle of our work.

From a standing start, the trust is on track to meet its ambition of securing £10m a year of voluntary income each year within its first decade.

Engagement and governance structures

Despite good results, we knew that growing income from the general public could only go so far, and that the inland waterways would only ever have a secure future if they were truly valued by the people who use them. Creating a model that gave greater involvement to the millions of people who use and enjoy the waterways every year was therefore the key challenge that we faced when we became a charity.

The unique governance structures of the new charity were designed to generate involvement at every level, which in turn supports our sustainability objectives. The trust has a council that elects trustees; this council has a significant democratically-elected component, as well as co-opted experts. Candidates represent specific interest groups, such as boating customers or businesses such as marinas, with financial donors to be included for the first time in the 2015 elections.

In addition, local waterway partnerships were established to ensure a local voice is considered in any local decision. Specialist advisory groups were also formed to provide an insight into areas of work such as heritage, volunteering and education.

This engagement is having an impact. Volunteering has grown tenfold since the launch of the charity, with over 2,000 regular volunteers. And some of the new sources of income have helped grow this further. Esmée Fairbairn Foundation has, for example, funded a project that will attract volunteers from ethnically diverse communities around the Rochdale canal who have not traditionally engaged with the waterways.

Our journey towards sustainability has only just begun, and while there will be many more twists and turns on the way, as our chairman Tony Hales sums up: "Nobody wants to go back to the public sector, that's for sure!"

Ruth Ruderham is head of fundraising at the Canal & River Trust

Canal & River Trust

LESSONS FOR OTHERS

The Canal & River Trust share what worked for them when it came to finding sustainable income, and what others can learn:

- **Earned-income strategies** can provide a foundation of secure funding
- If possible, use **face-to-face fundraising** to engage supporters and **tell a story** in a way that makes the most impact
- **Strengthening involvement** within your governance structures and in local communities is vital to sustainability

How to be a digital pioneer

Embracing digital technology enables charities to be adaptable and innovative. Nesta's Katie Mountain explores how to establish a strategy

People say there is a huge opportunity for digital technology to accelerate social change and tackle social problems. And they're right. But the charity sector, which is often at the forefront of addressing these challenges, is not utilising digital to its full potential. While we have seen some major digital developments in areas such as fundraising and campaigning, progress has been much slower in terms of charities using digital to enhance their service delivery and, ultimately, their sustainability and impact on the people they work with.

Get connected

Using digital effectively doesn't just mean having a swanky website. Instead, it should be viewed by charities as a much broader tool that can be used to create new products and deliver better services. A messaging app called Jointly, designed by Carers UK, is a great example. Carers UK identified a need to manage the coordination of care tasks to help reduce the stress of those providing care. The app does just that, with features such as group messaging, shared calendars, task allocations and medication management.

For charities, the opportunity to expand their reach and impact using digital is huge. However, getting to this point is easier said than done. In 2014 we spoke to a number of charities and stakeholders to understand more about their experiences of using digital. As a result of this work we have identified a number of common challenges:

Maintaining focus
When creating a digital strategy, it is important to keep the overall aims of the charity at the forefront, and maintain focus on the broader organisational strategy. Products should always be designed with the user's needs in mind. Sometimes the simplest solutions are the most effective – don't get distracted by the opportunity to do something cutting edge if it is not necessary.

Lack of affordable digital skills
It goes without saying that developing digital innovations requires people with the necessary skills, from specialist developers to marketers. Charities should think about when to outsource and when to invest in building the resources in-house. The most important thing when addressing this challenge is to work with the right people that genuinely believe in the aims of the organisation.

Need for senior buy-in
For digital innovations to be successful they must be supported by all stakeholders, including senior management and trustee boards. Here, effective internal communication and education is vital so that people at all levels of the organisation understand the benefits. If this happens, new digital can be embedded into the fabric of an organisation.

Collaboration and partnerships
Organisations can only get so far alone. The right partnerships can bring valuable support and expertise, especially if navigating unknown digital terrain. There are some impressive incubators and accelerator programmes out there that can help organisations hit the ground running on innovation.

Access to risk capital
A plan for how to fund the development and growth of innovations should not be an after-thought. Different projects will require different forms of funding, from grants to repayable investment. Planning ahead is vital, and if you are looking to attract external investment then engage with investors early and ensure they are brought into your mission.

Katie Mountain is an impact investment analyst at Nesta

Future proofing: a user's guide

Ruth Stokes speaks to experts from across the voluntary sector to find out what top tips can keep an organisation resilient

1) Improve your reaction speed
Rosaline Jenkins, a sustainable funding consultant at NCVO, says that instead of trying to predict the future, charities should focus on how they actually make decisions when an opportunity or challenge arises. "You need a clear set of criteria for assessing an opportunity," she says. "Know who will do the assessing, who can take it forward and how quickly you can get sign off. If you've got a clear process, everyone has confidence to make decisions."

2) Nurture a mixture of skills
Plans for the future need to extend to your people, according to Cass Business School's professor of voluntary sector management Paul Palmer. "Look at the composition of the board," he says, "and think about what different skills your trustees have and how you might use them." In addition you should make sure that this knowledge is shared, so if someone leaves the organisation, you will still have what you need to keep working effectively.

> "You need a clear set of criteria for assessing an opportunity"

3) Spread the risk
Probably the greatest risk area is funding, which can sometimes disappear without much warning. Henny Braund, chief executive at blood cancer charity Anthony Nolan, advises getting money from a mixture of sources rather than relying on one. "Ideally, you're not just fundraising but looking towards a bit of government income and a bit of commercial income," she says. It's also worth taking time to build strong relationships with different funders, keeping long-term possibilities in mind rather than only thinking about the next step.

4) Be strategic
While securing funding is essential, don't let it dictate your direction: clever service design and innovation are key for long-term sustainability. "Make sure you can justify your services with strategic, not funding, reasons," says Jenkins. "That way you know how critical they really are and how hard you need to fight for them."

Sustainable innovation, she adds, goes back to basics: "If you know what you want to achieve, you'll know better where to innovate."

Ruth Stokes is a freelance journalist and author

Content commissioned and edited by Slack Communications, on behalf of Zurich Insurance.

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