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TEN YEARS OF EXCELLENCE

BEATING THE CUTS

Lessons for Commissioners and Charities

"Anyone who cares about the voluntary sector is concerned about cuts. But whether you're a commissioner having to reduce your budget, or a charity chief exec losing an income stream, the crucial thing is how you respond to this. Business as usual won't protect services for the people who need them, and it won't stop valuable organisations going under. This report shows commissioners and charities how to change to protect services now, and develop more impactful services for the future."

Daniela Barone Soares, Chief Executive, Impetus Trust

About Impetus Trust

Impetus pioneered venture philanthropy in the UK in 2002. Our venture philanthropy package consists of unrestricted funding, hands-on management support from an Impetus investment executive, and specialist expertise provided pro bono by experts from the private sector. This combination helps to dramatically expand the number of people our charities help, and the depth of their impact. Our goal is to break the cycle of poverty and disadvantage in the UK for children and young people, by supporting and scaling the most effective solutions to this cycle. In 2011/12, our charities achieved an average annual growth rate in income of 19%, and the compound annual growth rate in people helped was 39%.

We have supported 27 charities and social enterprises since 2002, and currently focus our support on organisations with outcomes around education, skills and jobs. We also work to make a difference beyond our portfolio by sharing our expertise on charity performance widely, and advocating for change in our specialist areas. This includes calling for targeted resources to get more charities ready for social investment and campaigning for high-quality early years services.

In January 2013, Impetus Trust announced it was merging with the Private Equity Foundation, to form Impetus – The Private Equity Foundation.

INTRODUCTION

Charities and the cuts

Since 2008 charities have faced an increasingly difficult financial environment. The advent of a new government in 2010 created uncertainty over policy priorities and was followed by reductions in many funding streams and a further shift in emphasis away from grant funding. Local Authorities in particular have cut grants to, and contracts with, the voluntary sector. It has been estimated that by 2017/2018 local authorities' spending power will have reduced by 50% in real terms compared to 2011-12[1]. NCVO has estimated that charities' income from government will be 12% lower over the same period[2].

It is unlikely that the pressures on charity funding will ease in the short term, and June 2013's Comprehensive Spending Review (CSR) announcement means another 10% squeeze on spending from April 2015. Many Local Authorities "took the pain" of the 2010 CSR by reducing expenditure on the corporate centre, in an attempt to protect front line services[3]. This strategy will not be available again, and cuts are likely to fall more deeply upon the voluntary sector as providers of these services this time round.

Weak economic growth has also squeezed charitable giving. Research by the Institute for Voluntary Action Research found that in 2011/12 the estimated total donated to charity by adults in the UK fell by 15% in nominal terms and 20% in real terms compared to 2010/11. The 2011/12 total of £9.3 billion was the lowest level of giving in real terms since their survey began in 2004/05.[4]

"Cuts" and uncertainty for charities will remain as what a recent report by PWC called "the new normal". In the face of this, carrying on with the same ways of commissioning services, or of managing charities, will result in diminishing quality of services, and dwindling capacity in the voluntary sector. This report reflects the need for both commissioners and charities to change.

1 Tony Travers, 'The State of Things to Come', *Public Finance*, May 2013, pp.26-31.

2 Counting the Cuts *Update* (Bhati & Heywood) NCVO, 2013

3 Gaming the Cuts: *AnyBorough* in 2018 (Manning), NLGN, 2013

4 UK Giving 2012; report by IVAR for the National Council for Voluntary Organisations and the Charities Aid Foundation, p.4. https://www.cafonline.org/PDF/UKGiving2012Full.pdf

Who is this report for?

This report has been written for two audiences:

- **Local (and national) commissioners responding to cuts to their budgets.** For those commissioning services from their voluntary sector, this report is a resource they can use to help them 'cut with care' and protect outcomes for beneficiaries. It also provides an insight into the problems charities face when cuts come swiftly, and the steps they can take. We encourage local and national commissioners to share this report with their voluntary sector partners – where the relationship is strong, commissioners may be able to help charities implement some of the actions we recommend.
- **Charity management teams and boards** who have lost, or are expecting to lose, major income streams. This report provides examples of two charities that have turned around a bad financial situation, and draws out lessons for all organisations, based on Impetus's expertise and experience.

Impetus provides outstanding charities and social enterprises with funding, management support and pro bono expertise. Our investment executives work extremely closely with the organisations we support. Two that have experienced sharp funding cuts since 2010, and were left in difficult financial positions that jeopardised immediate service delivery as well as their long-term sustainability, are showcased in this report. The work these organisations have taken to recover from this, and in which we supported them, has reaped impressive results, and they are making an impact for more beneficiaries today than they were previously before the cuts.

From these charities' experiences, we have drawn out lessons for funders in local and national government. Where cuts are handed down from central government, it is vital that national and local commissioners act to protect outcomes for beneficiaries. The case studies clearly demonstrate the resilience of some charities facing funding cuts. Indeed, the pressure on funding arguably accelerated some key decisions that had positive outcomes for the charities. However, this should not disguise the real potential for damage to many charities – and their beneficiaries – from reductions in funding. At a time when government is increasingly looking to civil society for solutions to issues, ill-considered and badly-executed funding decisions could destroy capacity that has been painstakingly built up by charities and which would save public money over the longer term.

We also share the charities' stories, and draw out lessons for other senior management teams and boards in similar positions. As noted above, the funding environment is likely to remain very difficult and charities need to consider diverse strategies to cut their costs and still invest for the future and increase impact. The experience and expertise drawn from the case studies in this report are highly relevant to charities and social enterprises – both those organisations that currently have to respond to cuts, and those that know they are likely to hit soon.

Financial uncertainly has long been a reality for charities, but the 'new normal' sharpens the need for social sector organisation to prioritise excellent leadership, financial planning, and impact management. This report provides examples of how these things can provide a route out of difficulty, and onto future growth.

This severe damage to the sustainability of voluntary sector service provision can be avoided, even in an environment of reduced spending, if funders and policymakers become better at planning and commissioning. 'Cutting with care', described in our lessons for funders, requires commissioners to change some of their ways of working – but these changes will have wide, and long-term, benefits.

Finally, we would note that this report amply demonstrates the value that Impetus adds to charities, helping them to reverse difficult situations, and get back onto a growth trajectory. This value is significantly more than just funding, and has allowed charities to avoid 'crisis management' and continue adding capacity, and even growing. Our merger with the Private Equity Foundation will allow us to extend our funding, support, and expertise to more charities working for disadvantaged groups.

THE CHARITIES

Teens & Toddlers

Context

Teens and Toddlers was founded in 2001 by its current CEO, Diana Whitmore. In partnership with schools and local authorities, it delivers programmes (based on a model successfully developed in the US) for vulnerable young people, combining work experience in a nursery with classroom sessions focusing on behaviour management, life goals and barriers to achievement. Participants gain a nationally accredited award in interpersonal skills.

Impetus Trust first invested in Teens and Toddlers in early 2009, to develop a business plan to support its expansion. A further investment over a three-year period followed in 2010.

In 2008/09 Teens and Toddlers generated a healthy surplus of £142k on income of £1.1m. However, 60% of this came from contracts with local authorities. 2010 was a critical year, as not only did local authorities enter a period of uncertainty about funding from the new Coalition government, but the 10-year national strategy on Teenage Pregnancy Prevention came to an end. Much of Teens and Toddlers' contract income had come from local authorities' Teenage Pregnancy Prevention programmes, but from 2010 the local authorities no longer had ring-fenced funding for this purpose. Teens and Toddlers' local authority income fell about 28% in the year to February 2010 and was forecast to fall by a further 35% in the following year. The charity potentially faced a significant deficit.

Action

With help from its Impetus investment executive, and pro bono experts, **Teens and Toddlers reviewed its pricing and sales model.** This confirmed that its programmes were good value for money in terms of cost for outcomes achieved, a critical issue as funders moved towards outcome-based commissioning. Teens and Toddlers also reviewed the outcomes achieved by its programmes, and refined its sales approach to emphasise that these were wider than teenage pregnancy prevention, and included NEET prevention and achieving re-engagement with education.

Teens and Toddlers had always been **proactive in monitoring and evaluation of results from its programmes,** even completing a two-year randomised control study in 2012. A study on Social Return on Investment by the Centre for Excellence in Outcomes and one commissioned by Impetus with the Social Return On Investment Network, indicated that Teens and Toddlers delivered £6 in savings to society for every £1 spent. The ability to track outcomes was important in winning a contract with the Department of Work and Pensions Innovation Fund, funded by a Social Impact Bond, in 2012. The three-year contract is allowing Teens and Toddlers to roll out its programme across five local authorities in North West England, reaching an additional 1,152 disadvantaged young people.

Teens and Toddlers had already identified the **need to diversify its income,** and commissioned consultants to help prepare a fundraising strategy in 2008. A Director of Fundraising joined in 2010 and has had a significant impact. Teens and Toddlers won a Department for Education grant of £540k over two years and also secured funding from a number of corporates and charitable trusts. Grant income increased by 16% in 2009/10 and reached £1m, 74% of total income in 2012/13.

As a result of natural wastage, the board of trustees was under strength, with only three members by early 2010. With help from its Impetus investment executive, **Teens and Toddlers recruited three new trustees with mainly commercial backgrounds** to support the focus on diversifying income and refining the operating model.

Although total income dipped by 12% in 2009/10, Teens and Toddlers was able to avoid making big cuts in its activity. **A Director of Finance and Operations was appointed, who improved reporting and forecasting, and cut overheads.** There were cost savings – carefully calculated so that impact would not be compromised – from shortening the core programme, and increasing the maximum size of the student group. Teens and Toddlers also used its resources more flexibly, with administrative staff becoming involved in front-line activities where required. The effects of this on staff engagement and motivation were so positive that it has continued, despite the financial pressures easing.

Current situation

The focus on operating more efficiently meant there was only a very small reduction in the number of participants in Teens and Toddlers' programmes, with 485 graduating in 2009/10 compared to 502 the previous year. Growth resumed quickly, reaching 846 graduates in 2012/13 and is projected to grow further in 2013/14.

In the financial year 2012/13, Teens and Toddlers' total income grew by 17%, from £1.10m against the prior year, to reach £1.29m.

Teens and Toddlers Chief Executive Diana Whitmore and Director of Operations and Finance Paul Hopkins, on the key lessons from Teens and Toddlers' experience:

- **"In a small organisation having the right people in the right jobs is vital. Two key appointments acted as a game-changer for Teens and Toddlers."** The Finance and Fundraising appointments were made at a time when Teens and Toddlers faced financial constraints, but were necessary to build the organisations' capacity to thrive in the longer term.
- **"The organisation's ethos, values and vision always need to be kept front of mind."** Teens and Toddlers concentrated on its core mission and sought ways to maintain growth in positive outcomes at lower cost rather than simply to balance a budget. The focus on continuing positive development during a period of funding cuts was recognised in Teens and Toddlers' selection as one of the *Guardian's* Charities of the Year in 2010, which in turn raised the charity's profile with funders.
- **"You have to keep refining and strengthening the funding proposition."** Through expert analysis and research initiated by their Impetus investment executive, Teens and Toddlers knew they had a distinctive proposition that was competitively priced. Once local authority funding become scarce, they focused on selling a broad base of new funders; building relationships directly with schools to ensure continued engagement and refining the programme to deliver as cost effectively as possible without compromising on the quality of outcomes. Support from their Impetus investment executive, and from pro bono experts, in implementing this strategy was critical throughout.

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STREET LEAGUE

Context

Street League was founded in 2001 as a charity using sport, particularly football, as a hook to re-engage disadvantaged people, primarily the homeless, with the ultimate aim of bringing them back into the labour market. Street League's programmes combine time in the classroom with time playing sport, and lead to nationally-recognised qualifications.

When Impetus first invested, in 2008, Street League had annual income of over £1.3m and was reaching 2000 participants a year. It was already operating in London and Glasgow, and Impetus's funding was to support work on the further development of Street League's delivery model, a roll-out strategy to expand its geographic reach, and strengthening capacity through building the board and management team.

However, Street League was vulnerable to changes in the funding environment. Ninety-one per cent of its income in 2007/08 was from grants, and the two main funders accounted for 40%. The London Development Agency's three-year grant expired in March 2009, leaving a significant funding gap, and this was exacerbated by the axing of the Future Jobs Fund in May 2010. Unrestricted reserves amounted to less than one month's expenditure. Street League's ambitious expansion plans, including opening a new centre in Newcastle in 2009/10, meant that the funding gap would only widen if new sources of income were not found.

Action

Impetus made a further investment in 2009, with the aim of supporting the scale-up of Street League's model but also with increased emphasis on income diversification, marketing and developing the organisation's capability. With help from its Impetus investment executive, and Impetus's pro bono experts, **Street League reviewed its delivery model and its marketing approach.**

At the behest of grant funders, Street League had previously emphasised growth in the number of participants in its programmes, targeting a wide range of beneficiaries. Recognising the need to diversify funding sources and achieve more contract income, the new Chief Executive, Matt Stevenson-Dodd, decided to **shift the organisation's emphasis from participation to outcomes,** and to **narrow the focus to a more clearly defined group of beneficiaries – 16-25 year old NEETS, offenders and drug abusers.** Street League also decided to focus entirely on football, rather than including other sports.

Participant numbers were initially reduced, as Street League cut the least-attended activities and **concentrated on the more intensive activities most likely to improve outcomes.** Instead of multiple products, Street League began to offer two core products – Street Football, an entry-level engagement programme offering and the Street League Academy, an intensive 8-12 week intervention, which includes job-readiness training, and leads to qualifications.

Street League also aligned the delivery model in each location, where previously there had been considerable variation. When Matt asked the operational management team what 25% cuts in spending would look like operationally, the managers all independently came up with a similar model, which was implemented, eventually reducing delivery costs by 20%. **Every budget line and every supplier contract was reviewed.** The team compared spend across the organisation to identify the optimal costs, and renegotiated or terminated contracts where possible. Internal culture was changed from 'spending budgets' to 'celebrating savings'.

Contracts with public sector bodies were identified as a key source of new funding. In Scotland, a small initial contract with Skills Development Scotland turned into a £500,000 national commitment. In England, Street League won contracts with the Department of Work and Pensions, Job Centre Plus, the Skills Funding Agency and the Greater London Authority. New accreditations enabled Street League to deliver subcontracted services on behalf of Further Education Colleges and Education departments. Total contractual income rapidly rose to over £800,000.

Ninety-five percent of this public sector income is based on payment by results. To enable this, **Street League made the development of its monitoring and evaluation system a high priority.** This now tracks every individual who attends a programme, and allows Street League to provide funders with detailed data on cost per outcome. Impetus arranged pro bono help to bed in this system.

Corporate funding was identified as potentially suitable for Street League, and Matt appointed a Commercial Director to drive this forward. The senior team was reshaped, with the heads of the English and Scottish operations taking on new roles as National Development Director, and Chief Operating Officer. With assistance from its Impetus investment executive and a headhunting firm working pro bono, Street League also recruited new trustees, including a Chair with top-level business experience.

Street League's renewed focus was recognised in its reselection as one of the Football Association's charity partners and its selection as Number 10 Downing Street's volunteering partner for 2011/12.

Current situation

The effect of Street League's response to the altered funding environment since 2010 has been to improve both the financial position and the outcomes achieved. Street League's income has grown from £1.65m in 2008/09 to £2.35m in 2011/12. The make-up of this income is more balanced and sustainable. Grants, which accounted for 88% of income in 2009/10, were only 29% in 2011/12. Fundraising from corporates and individuals made up 35% of Street League's income, and contracts the remaining 36%. Street League has built up its unrestricted reserves, allowing them to invest in further capacity in the future.

Whilst the number of participants in Street Football has roughly halved, entries to the more intensive Academy programme have more than doubled from 376 in 2010/11 to 799 in 2012/13. The numbers achieving an employment, education or training outcome have risen from 325 in 2010/11 to 461 in 2011/12 and 703 in 2012/13; and qualifications gained have risen from 1273 in 2011/12 to 3375 in 2012/13. The increases were achieved without great increases in operational spending, indicating substantial efficiency improvements.

Street League is continuing with its scale-up plans. New locations opened in Manchester in November 2011 and Edinburgh in February 2012, and openings in Liverpool and Nottingham are scheduled for summer 2013. Future plans include a "franchise" model to give national coverage.

Street League Chief Executive Matt Stevenson-Dodd, on the key lessons from Street League's experience:

- **"Focus on outcomes and doing one or two things really well rather than trying to be all things to everyone."** Street League reduced the number of client groups it served and moved away from prioritising participant numbers to focusing on impact – the number of people it helps get a job or a qualification. Street League also moved to a culture of recording everything on its monitoring and evaluation system: "If it isn't recorded on the system, it didn't happen."
- **"Lots of charities talk about being a social enterprise but don't actually become one."** Street League used to be dependent on grants, but now thinks like a business, with every activity linked to a funding stream. This requires a culture change. Instead of spending up to a budget, Street League's people now seek out good deals and celebrate saving money.
- **"Branding and messaging are essential."** Street League's sharper focus is communicated both internally and externally by its vision "an end to structural youth unemployment in the UK" and its tag line "Change lives through football."

THE LESSONS

For Funders

- **Commissioning is about cost-effectiveness, not cost.** For both Teens and Toddlers and Street League, more intensive interventions have proven much better value in terms of cost per outcome than apparently cheaper "light touch" approaches. Commissioners must base contracts on outcomes, not activities, and allow charities to design programmes to achieve the desired outcomes. This is a model that has been proven to be effective in healthcare, and it urgently requires expansion to other services. Commissioners and funders, like charities, need to have a robust evaluation methodology that takes into account indirect costs and benefits as well as the direct impact on annual budgets.
- **Well-managed charities have already cut their costs.** There is little or no fat to cut, so funders cannot realistically expect simply to impose an across-the-board percentage cut in funding and achieve the same results as before. Funders again need to consider which is the most cost-effective activity for them to commission and which activities should be cut (rather than done more cheaply).
- **Payment by Results must be made easier for charities to handle.** Many charities have the capacity and willingness to be paid by results. Their thinking in this area and their evaluation systems probably put charities ahead of some commissioners. But the legal complexity of PBR contracts and the difficulty of funding PBR are significant barriers, especially for smaller charities. One of Teens and Toddlers' contracts runs to 350 pages. Street League has to fund some £400,000 of working capital, representing costs that are incurred in advance of payment from the public sector. Greater standardisation of contracts, widening the pool of capital providers and the development of simpler funding mechanisms for projects too small for a Social Impact Bond, should be priorities.
- **When funding cuts are unavoidable, transition planning is critical.** When the ten-year strategy on teenage pregnancy prevention ended in 2010, there was little communication from government of what would replace it, so local authorities and charities lacked a framework for planning their future commissioning and services. Many local authorities cut their entire teams, and charities also cut capacity, which is hard to rebuild. But this capacity could have been used to address new priorities identified by national government. Only national government really has the capability to perform proper transition planning and it should provide clear leadership.

For Charities and Social Enterprises

- **Short-term financial pressures should not create a 'crisis management' situation.** Street League and Teens and Toddlers recruited finance directors able to produce timely reports and accurate forecasts. They also put in place funding from Impetus (and other sources) that ensured short-term stability while the longer-term strategic plans were implemented.
- **Keep investing for the future sustainability of the organisation.** Street League and Teens and Toddlers kept investing for the future through the period of greatest uncertainty about short-term funding. They particularly emphasised building the capability of the management teams and refining their offering to meet changing demands.
- **Reviews the skills you need, and the skills you have, at management and board levels.** Street League and Teens and Toddlers both recognised that as the external environment changes, and as the organisation develops, a different mix of skills may be required, both in the senior management team and in the board of trustees. At Street League, the founder was succeeded by an experienced social entrepreneur, ideally suited to moving the organisation away from dependence on grant funding. Teens and Toddlers brought on board a Fundraising Director and a Finance Director. Charities also need to continually upgrade their people's skills – with Impetus's help Street League's new chief executive identified an experienced mentor who worked with him pro bono for his first 100 days in the job.
- **Know your "customer" and continually refine your offering to appeal to these customers.** This requires a strong focus on outcomes and a proactive approach to evaluation. Both Street League and Teens and Toddlers are able to demonstrate comprehensive data on outcomes from their programmes; and they concentrate on measuring the outcomes that are most valuable to funders – Street League narrowed its evaluation from five outcomes to the three most important. Without this data, it is unlikely either charity would have won the new contracts and funding that has enabled them to grow their activities.
- **Concentrate organisational resources on the activities where they have the greatest capabilities and are most able to demonstrate tangible results.** Street League narrowed its scope to concentrate on 16-25 year-olds rather than chase funding streams attached to other groups it was less well equipped to work with. For Street League, diversifying funding sources meant initially reducing the scope of its activities – a brave decision at a time of funding cuts, but one that has paid off in the longer term. Capturing the right data is crucial here – knowing what you do best must drive your resource allocation.

- **Identify a deliverable and sustainable scope and scale of operations while remaining flexible enough to respond to new growth opportunities.** Teens and Toddlers adopted a policy of "careful opportunism" and grew its geographic reach around established hubs. Street League found that growing city by city was more difficult operationally than was originally expected, and spent some time ensuring each location had a common operating model before resuming expansion to new locations.
- **Develop and maintain a healthy mix of sources of income.** This makes a charity much more resilient to changes in the external environment. Contractual income and grant income are not incompatible, and a balance between the two will be the best position for many small and medium-sized charities. Over-dependence on contractual income can make a charity vulnerable to change in policy or reduction in public sector budgets. Over-dependence on grants can make a charity vulnerable to the unwillingness of many funders to continue funding the same charities every year. When Impetus first invested, Street League was over-dependent on grant income and Teens and Toddlers on contract income. Both have worked pro-actively to create a more balanced income profile, including strengthening their senior management teams with specialists in fundraising or bidding for contracts. Both also recognised that the chief executive remains ultimately responsible for the success or failure of fundraising.
- **There is often scope to reduce costs without impacting core operations.** Street League found that a history of grant funding had reduced pressure to get the best deal from suppliers. When winning contracts became critical, local operations managers found they were able to negotiate much lower costs for items like football pitch hire. Teens and Toddlers found that putting administrative staff on front-line projects not only saved cost but helped align everyone in the organisation with the core mission.
- **Your organisation could benefit from a wealth of external expertise.** Many experts provide skills on a pro bono basis, often via organisations like Impetus. Street League and Teens and Toddlers used this resource to evaluate strategic issues they had identified, at a pace and with a level of detail and rigour that it would have been difficult to achieve with in-house resource. The charities also benefited from the ability to use external pro bono resource to deal with issues arising from restructuring, such as employment law matters.

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