Diversifying income

Community Foundation Wales

Charities and community groups need funds to operate. Whether it's to pay staff, cover core costs such as maintenance and buildings insurance, purchase equipment, pay volunteer expenses or external training.

Relying on one source of income can be problematic, especially if that source is unreliable or has a time limit. The more a not-for-profit relies on one source of income, the greater the threat to their long term financial stability.

Shrinking budgets and political and economic change all put additional pressure on community groups and charities.

How to diversify income

Charities and not-for-profits should aim to secure several income streams, and there are many available to look at:

- Grants from charitable trusts.
- Government funding.
- Donations from the public.
- Corporate fundraising.
- Contracts through local authorities.
- Raising revenue through sales/social enterprise.

Benefits of diversification

Sufficient income diversity means that, even if a main source of income is removed, the organisation will be able to easily continue their operations and fulfil their charitable objectives.

The importance of diversifying income has become particularly apparent in the past two years. The pandemic demonstrated how quickly an unexpected risk can develop. Not only did the pandemic put huge financial pressure on not-for-profits and charities, it also put pressure on the groups and people who fund them. The funding landscape is continually changing, and so too should the groups who seek to secure it.

Continuous assessment

As we have seen over the past two years, income diversification is not a one-time process. It also cannot be used to 'fill a gap' as a last minute solution. There is a need for continued assessment and an ongoing process. The continued assessment of income streams will support healthy governance, mitigate risk and ensure long term financial stability. The following should be considered in regards to each type of income stream:

- The money received from each income stream.
- The costs associated with each income stream.
- The risk of losing each income stream.
- The impact of losing each income stream.

Financial green flags

Other ways in which organisations can mitigate risk and plan for a sustainable future include some of these ‘financial green flags’:

- Have a well thought out, realistic reserves policy that takes into consideration risk management and future hopes and dreams for the group.
- Unrestricted reserves that are appropriate and healthy for the size and scope of the organisation.