# The income diversification tool: Help to find the right income mix

The key to sustainability is knowing which streams are the right ones for your organisation to explore and how you can develop the capacity to secure and manage them. The templates below are designed to help trustees and managers understand how far the charity relies on a particular income stream and explore more diverse funding approaches. The tool can be completed either by an individual or as a group exercise by managers and trustees.

## The income spectrum

Before you complete the income diversification tool, here’s a brief explanation of the four main streams of income. Each is accessed and managed differently and relies on a particular relationship, whether with an individual or an organisation.

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| --- | --- | --- | --- |
| **Gifts** | **Grants** | **Contracts** | **Open Market** |
| **Donor relationship**  Gifts are made to further the mission of the organisation. This includes community fundraising, individual giving, regular donations, philanthropy, corporate support, legacies and much more. Often this income is unrestricted, as the donor trusts the organisation to use the money to achieve its aims. | **Funder relationship**  Restricted funding to deliver specified outputs or mutually agreed outcomes. Most often there is an application process, the funder has clear expectations about what will be achieved and they will monitor how the grant is used. | **Purchaser relationship**  Payment for provision of products or services according to agreed terms with a third-party purchaser from the public, private or voluntary sectors. There is usually a competitive tendering process at the start and contract management throughout to check that the objectives are being achieved.  Contracts are legally binding – if either side fails to deliver, they can be sued in a court of law. | **Customer relationship**  Selling products or services to customers, not as part of a long-term structured contract. The open market includes trading and enterprise activity such as providing education, training, paid-for advice, selling publications or other retail. Trading can directly further the organisation’s mission or can be purely to generate profit. Any surplus income is unrestricted. |
| **Asking**  **Earning** | | | |

### Points to note

**Asking or earning?**

Having a good relationship with the donor, funder, purchaser or customer is crucial. Working with gifts or grants, you usually define the aim of your work and ask for support to make it happen. With contracts and the open market, the purchaser or customer usually defines what they want to pay for and you earn income by meeting their requirements. Within the range of options there is enormous variety and possibility. Sustainable funding isn’t the same for every organisation. It may involve all these income streams, or just some of them– so diversification across the spectrum, or if that is not possible or appropriate, within a particular stream or streams.

**Donor or customer?**

Income from sponsorship, membership and fundraising events can be gifts or can be in the open market. It depends on whether the person or organisation is understood to be getting a product or service in exchange for their money. If they are, they are a customer, if not, they are a donor. This affects [tax and Gift Aid](https://knowhownonprofit.org/organisation/financial-management/tax-and-trading).

**Social investment**

Social investment means the different types of financing used to create social impact. This includes loans, bonds, capital, equity and many other types of investment in voluntary organisations. You can find [further information on social investment here](https://knowhow.ncvo.org.uk/funding/social-investment-1).

**Investment income**

Investment income includes rent from property, dividends, and interest on deposits. Investments by voluntary organisations generate a small but significant share of the sector’s overall income. Wise investment is part of sound financial management, as discussed on [NCVO Knowhow](https://knowhownonprofit.org/tools-resources/financial-procedures-manual/writing-the-financial-procedures-manual/investment-and-borrowing) .

## Step 1 – Identify current and potential income streams

* What is the amount of income per year in each stream?
* Are any of these income streams likely to come to an end? When?
* What proportion of your organisation’s total income comes from each income stream?
* What is the level of risk in that income stream (of it suddenly reducing or ending)?
* What is the potential for growth across the income streams, or within one type of income? You can reduce your risk levels by diversifying.
* What would be your preferred (but realistic) mix of income streams?

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| **Income stream** | **Number of providers** | **End date** | **Current amount**  **£** | **Current % of total income** | **Risk** | | | **Potential for growth** | | | **Preferred % of total income** |
| **Low** | **Medium** | **High** | **Low** | **Medium** | **High** |
| **Donations** | | | | | | | | | | |  |
| **Individuals** |  |  |  |  |  |  |  |  |  |  |  |
| **Private sector** |  |  |  |  |  |  |  |  |  |  |  |
| **Grants** | | | | | | | | | | |  |
| **Trusts and foundations** |  |  |  |  |  |  |  |  |  |  |  |
| **Public sector agencies** |  |  |  |  |  |  |  |  |  |  |  |
| **Private sector** |  |  |  |  |  |  |  |  |  |  |  |
| **Contracts** | | | | | | | | | | |  |
| **Voluntary organisations** |  |  |  |  |  |  |  |  |  |  |  |
| **Public sector agencies** |  |  |  |  |  |  |  |  |  |  |  |
| **Private sector** |  |  |  |  |  |  |  |  |  |  |  |
| **Trading** | | | | | | | | | | |  |
| **Individuals** |  |  |  |  |  |  |  |  |  |  |  |
| **Voluntary organisations** |  |  |  |  |  |  |  |  |  |  |  |
| **Public sector agencies** |  |  |  |  |  |  |  |  |  |  |  |
| **Private sector** |  |  |  |  |  |  |  |  |  |  |  |

## Step 2 - Potential income stream: Explore its impact on the organisation and your beneficiaries

Consider the impact a potential income stream would have on key areas of your organisation using this income exploration tool. Write the potential income source in the centre then use our starter questions to explore its impact on your organisation and beneficiaries. This will help give your ideas a reality check to see how right they are for you or what actions you may need to take to make it happen. You could also copy the tool onto a big piece of paper or white board and get your whole team involved. Think about the full cost of generating different types of income and develop streams that offer a good return for your organisation. Not all questions will be relevant for all income streams.

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|  | Mission How does the new activity fit within your mission? | Impact on organisation |  | Impact on beneficiaries and stakeholders | Community need How will the income stream respond to beneficiary needs? |  |
|  | Governance What new governance procedures will be required? | Partners How will your current partners and future partners respond? Are there new partnerships you will need to develop? |  |
|  | Organisational form How will your new income stream affect the legal structure of your organisation? | Market Is there a market for your new project? Who are your competitors? |  |
|  | Management Which management techniques will you need to use? | Potential income stream | | | Funder restrictions How would funder restrictions impact on it? |  |
|  |  |  | | |  |  |
|  | People and staff Do you have the right people in your organisation (staff and trustees) to manage and or oversee this income stream? |  | | | Services What new services/activities will you be required to deliver? |  |
|  | Skills Does your team have the skills and capacity to manage the income stream? Should you invest in training? | Impact on resources |  | Impact on activities | Product What products will you need to start developing? |  |
|  | Finance What kind of financial management arrangements will be required? Will this provide unrestricted income? | Location Will you work in the same location or somewhere new? |  |
|  | Space and access Do you have the right accessible space for your project? | Activity level What changes in activity level can you expect? |  |

## Step 3 – The Action Plan

Once you have explored your potential income streams and decided what might be a realistic mix, you can list the actions you will need to take to diversify your income.

### Income Diversification Action Plan

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| --- | --- | --- | --- | --- | --- |
| **Activity/Output** | | **Who** | **Reason/Outcome** | **By when** | **Status/Comments** |
| Gifts/Donations | |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Grants | |  |  |  |  |
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| Contracts | |  |  |  |  |
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| Open Market/trading | |  |  |  |  |
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## Need more help?

* NCVO can provide a facilitated workshop for your organisation to work through these and other resources. Contact our [training team](mailto:training@ncvo.org.uk) for more information and costs.
* You might also be interested in our funding and income generation training courses in our [open training calendar](https://booking.ncvo.org.uk/training/categories/funding-and-income) that can also be provided as bespoke sessions for your organisation.
* Or check out [NCVO’s Knowhow’s funding and income pages](https://knowhownonprofit.org/funding) for general guidance