Busting the myth of financial sustainability for charities

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What does financial sustainability mean for non-profits?

Managing financial sustainability is a critical challenge for not for profits in Aotearoa and worldwide. Financial sustainability considerations are varied and include:

- Securing enough income to deliver activity that meets community needs, is the highest quality possible and achieves goals for impact.
- Keeping costs, particularly overheads, as low as possible through lean operating models and the use of volunteers.
- Paying staff a living wage.
- Investing in evaluation for continuous improvement.
- Having sufficient multi-year financial security to enable planning, retain key staff and invest in organisational development, whilst retaining sufficient cash reserves to keep delivering during difficult times.
- Diversifying income streams to protect against fluctuations, and where possible reducing reliance on grant funding in favour of earned income.

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Is this possible at all, and especially at the moment?

Doing this well is a tricky and tiring balancing act. Charities have to compromise on their scale, reach or ability to innovate, depending on what resourcing they can secure. With ongoing pressure to meet community need, the cost is often staff retention, wellbeing and burnout. Many organisations have not bounced back from the financial shocks caused by the COVID pandemic and weather events, and are further struggling in the face of rising operational costs, community need and complexity in an ongoing cost of living crisis[1].

The end of COVID funding streams, such as the Cultural Sector Recovery Funds and Jobs for Nature, has created sharp funding cliffs for some and halted impactful initiatives[2]. The current Government is focused on reducing public spending[3], and cuts to funding are threatening the viability of key services like food banks and budgeting services[4]. Organisations that retain government funding over long periods of time often don't achieve full cost recovery (typically 80% funding)[5], leaving a hole that must be somehow filled. The current government has been clear in its signals to philanthropy to 'contribute more' alongside government[6]. This pushes charities to fill the gap from donations and philanthropy[7]; however, many philanthropic decision-makers are reticent about being a gap-filler for things that could be viewed as the government's responsibility.

All of these issues are factors in rising levels of competition for funding that can be seen across diverse sectors and funders. For example, regional community trust Foundation North has experienced a 33% increase in applications and an 11% increase in quantum requested between 2022/23 and 2024/25[8]. In the second round of its new Creative Impact Fund, announced in December 2024, Creative New Zealand was able to approve only 11% of eligible applications and award only 9% of the total funding requested[9]. Auckland Council's Sport and Recreational Facilities

Investment Fund 2024/25 approved 33% of applications received, down from 38% in 2023/24[10]. Competition for funding is tighter, and partial funding or declines are more common.

How do non-profits respond now?

Charities try to de-risk these challenges by diversifying their funding mix as much as possible, but that is no easy feat. Most still rely on a combination of grants, funding contracts and sponsorships, and there is often one funding source that is particularly critical and, if cut, would threaten ongoing sustainability. Much philanthropic funding is via one-year grants and changing political interests pose a three-yearly (or longer) concern. Corporate partnerships and direct donations are vulnerable to the poor fiscal landscape as well as changing personnel and interests.

While some organisations are able to supplement grant funding and sponsorship with some form of direct giving – such as donations from private donors, regular giving programmes or annual fundraising campaigns – this requires specific capability, networks and internal resourcing to do well at scale. It's not a substantial part of the mix for most outside of the large national charities.

Increasingly, organisations are encouraged to generate some form of earned income. Larger and long-established charities with a financial asset base can do this through investment returns, but for most organisations this involves other avenues such as contracts for services, social enterprise or charitable businesses like cafes or op shops. Sector feedback gathered by Hui E! on the proposed changes to the taxation of charities' profits[11] showed how important these earned income streams can be to financial sustainability[12].

However, the ability to generate direct income is challenging, requiring dedicated operational capacity, appropriate legal structures and more business-oriented skillsets/capabilities. In some cases, access to start-up capital is also needed. It can take time for there to be a meaningful contribution back to the sustainability of an organisation's charitable operations. Many of these considerations mean that generating income feels out of reach for small-to-medium charities. It's a big ask for a charity to be able to generate impact and income in an equally proficient manner. Even for those with established direct income streams, sustainability is precarious, with issues such as rising costs and revenue volatility pushing back to continued reliance on grant income[13].

So what does all this mean for philanthropy?

Financial sustainability has long been a consideration for philanthropy, from the above-mentioned reluctance to be the government's 'gap-filler' and debates about how long to consecutively fund a programme or organisation that continues to evidence both need and outcomes. The overall focus has been on finding long-term pathways away from reliance on them for grant funding, as well as prioritising more of the systemic or innovative work that the government doesn't typically fund.

Some difficult questions continue to sit underneath all of this:

- Can government funding ever be truly viewed as a sustainable funding pathway, when changing political interests can leave big gaps almost overnight?
- What degree of funding self-sufficiency is a realistic expectation for the average charity? This question has perhaps come into sharper focus when organisations like Ākina Foundation, that contributed so much to supporting the sector with this aspiration, have recently closed their doors due to the challenging funding environment[14].
- How long should funders be expected to support an organisation that is demonstrably doing good? What can be done to disrupt the cycle of charities moving circularly around funders to navigate their one-to-three year funding terms?
- What philanthropic practices are hindering rather than helping groups to strengthen their financial sustainability?

There are no silver bullets, particularly in times of wider funding precarity, and the elephant in the room is that most charities will never be 'financially sustainable'. However, funders should still be encouraged to reflect on their practices and ways that they could help strengthen organisational stability and resilience, if not traditional notions of financial sustainability, across the charitable sector.

Examples here might include:

- Switching a larger proportion of granting from consecutive one-year funding agreements to a multi-year funding term, to reduce application burden and allow staff retention and planning.
- Willingly investing in operational costs as well as programmes/projects, supporting the real costs of delivery whilst also giving organisations greater self-determination and financial flexibility in achieving their mission and impact[15].
- Supporting evaluation and research/development work as foundational practices that can help to sustain and strengthen impact and therefore contribute to financial sustainability. At the same time, investing in capability development to strengthen practice across key functions linked to financial sustainability such as governance, or use and integration of AI to reduce costs.
- Being more focused on when and how to invest in prototypes and pilots, ensuring that we aren't setting organisations up to fail and moving on to the next new thing. There needs to be a willingness to commit long enough for new practice to be properly developed, tested and scaled, and critically, for longer-term funding pathways to be developed.
- Reviewing exclusions around fundraising, with more nuanced policy that considers how funders might invest in the vital operational capacity and capability of organisations to get, grow, manage and diversify their income streams.
- Being clear in the distinctions between supporting social impact through charities, and impact investment; getting the right balance with the right expectations around financial sustainability.
- Supporting generative thinking to change funding models and help groups to get more financially viable through whatever means align with their values.
- Thinking innovatively about investing in the asset base/investment portfolios of key strategic partners to enable them to sustain their impact and free them up from the ongoing burden of fundraising.
- Proactively supporting the process and costs of collaboration and coalition building, where charities can collectivise, share resources (and risk) and scale impact1[16].

Overall, a helpful shift in thinking centres on moving from a financial lens of sustainability to a more holistic one that prioritises impact – i.e. focusing on doing what it takes as a funder to fully realise, mature and embed the change/impact that they've already started to invest in.

Footnotes

1. State of the Sector Survey: Community and Voluntary Sector Survey Report (Community Networks Aotearoa, 2024)
2. COVID-19 Cultural Recovery Programme Impacts Report 2022–24 (Manatū Taonga Ministry for Culture and Heritage, Dec 2024)
3. Minister of Finance's Budget 2025 Speech (The Beehive, May 2025)
4. Dozens of free budgeting services face closure after missing out on funding (RNZ, May 2024)
5. CommVoices Advancing the Community Sector: 2020 State of the Sector Survey
6. Social Investment Minister Nicola Willis calls for philanthropists to fund new societal change approach (NZ Herald, Nov 2024)
7. Auckland foodbanks face closure as government funding ends in 2025 (NZ Herald, Dec 2024).
8. Data supplied by Foundation North. Data compares the financial years 2022/23 and 2024/25, selected for comparison as both years included community building requests (2023/24 did not).
9. Creative Impact Fund 2024 - Round 2 (Creative NZ, December 2024)
10. Sports and Recreational Facilities Investment Fund (Auckland Council, Dec 2024)
11. Charities' $2 billion in untaxed profits (RNZ, December 2024)
12. Survey results: tax and the tangata whenua, community and voluntary sector (Hui E!, March 2025)
13. Creative Sector Investment Case Studies insights (Te Taumata Toi-a-Iwi, Oct 2024)
14. Ākina Foundation decision to close
15. The Philanthropic Landscape Volume II: Shifting Culture and Power through Mana Enhancing Partnerships (CSI and J R McKenzie Trust, 2024)
16. The Future of Nonprofits in a Politically Unstable World: Challenges and Opportunities (The Philanthropy Institute, Feb 2025)