

EXIT STRATEGIES & SUCCESSION PLANNING IN THE THIRD SECTOR – WAYS TO ACHIEVE SUSTAINABILITY

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This feature looks at the growing need for third sector organisations to consider the future of funded projects, beyond the point at which grant money runs out. The ever-evolving funding world now dictates a more business-like approach to sourcing finance when embarking on projects that require financial longevity. With greater competition for grants than ever before, non-profit organisations need to undertake rigorous research into their immediate and future merits, and adopt an approach more akin to commercial activities to guarantee success. The article explores exit strategies and succession planning and the various requirements for developing a suitable funding mix to ensure long-term sustainability.

WHAT IS AN EXIT STRATEGY?

An exit strategy is essentially a plan setting out what will happen to a project or new organisation once its initial funding ends. It is a detailed and thoroughly researched document, illustrating how grant holders intend to maintain their funded activities. This may be achieved by scaling back a project or closing it altogether, locating fresh sources of funding, diversifying or contracting within the public sector or becoming self-sustaining, securing income through chargeable services.

If your organisation is grant-funded, you may be encouraged to produce an exit strategy that accompanies your grant application, demonstrating what will occur at the end of the funding period. Your strategy should realistically and convincingly outline intended methods of securing your project's future upkeep.

WHY DO I NEED AN EXIT PLAN?

Most funding streams are fixed-term, meaning their finances will eventually expire. Only a minority of funding providers are willing to support projects on an ongoing basis, sustaining core services. Lottery programmes, Government support initiatives and grant-making trusts and foundations generally offer short-term finance, opting to inject funds into numerous programmes, as opposed to keeping fewer projects running over a long period of time.

Many third sector organisations rely on major funding providers such as the Big Lottery Fund (BIG) to

support their activities. BIG, like a number of similar grant-making bodies, has reduced its portfolio of funding programmes in recent years, meaning those groups relying on its support have had to ensure their exit and continuation strategies are as thoroughly researched as possible.

Some projects, of course, don't require a long-term succession plan. A small one-off initiative seeking a grant to buy equipment for a particular cause may have its needs and objectives met once the money has been spent. However, for those projects expected to continue long after the original grant money has been spent and require additional funding, a detailed exit strategy is paramount.

WHEN TO BEGIN

You should formulate your strategy at the earliest stage – from the outset of your original project plan. Having a well-crafted, robust strategy in place when you're ready to submit your first funding bid is what

you're aiming for. Some of the major funding streams, including the European Social Fund and European Regional Development Fund, require exit or succession strategies upon application. Spending the time to ensure your outline plan has the hallmarks of a lasting and successful initiative, with the backup to achieve its objectives, will make your application appealing to funding providers. If you expect to be bidding for additional grant support after the project commences, you

should do so at least 12 months before the original grant money will be spent.

Third sector funders often approve grants over a maximum of three years, without consideration for project sustainability once their involvement is withdrawn. Some funding providers cannot guarantee their own continued budgets (particularly where they themselves are funded by Government), so they're not in a position to pledge support over a longer period. With no structure and forward plan in place, your project could be at risk of disintegrating, leaving service users without access to facilities, and volunteers and staff without a position. If you are confident that what you're trying to accomplish has the ability to work, you will need to strongly emphasise this in your future projections, beyond the first flourishes of success that you expect to achieve with grant aid. Planning well in advance is the key.



TIPS FOR SUCCESSION PLANNING

When you begin to lay down plans for your funded project, there are many considerations which, if set out early, can aid you through a seamless exit from grant support. There are six key stages:

1. Compile a business plan

This is the first document you should put together once your project idea is conceived. Your business plan will complement your exit strategy. Ideally, it should cover a minimum of three years' activity, and should be most detailed in year one, clearly demonstrating what is being proposed.

(Further information is provided in the May 2007 GRANTfinder Special Feature: Writing a Successful Business Plan.)

2. State your evidence of need

You need to declare a real evidence of need, citing what provisions already exist for your planned activity. The evidence can be gathered at seminars, public meetings or user groups. You should also demonstrate a commitment to sustainable development in every aspect of your project. Researching and understanding potential funding providers' main objectives are critical and will allow you to tailor your project into the context of their policies. For localised projects, you may refer to your local authority to establish its remit and objectives for funding, which can help to supplement your proposals for long-term sustainability when making an application. GRANTfinder's new Policy database POLICYfinder.¹ houses over a thousand policy documents to help you complete applications, forward plan and keep track of major funders' policies that affect you.

3. Budget

You'll need to work out the anticipated costs of your project. For example, if you're going to run a programme of training courses, how much will the workshops cost? If you're operating a meals-on-wheels service, how much are the overheads and materials? You should consider the costs of volunteers, paid staff, utilities, training, courses, CRB checks and insurance. An explanation of Full Cost Recovery is provided by the National Council for Voluntary Organisations (NCVO).² Setting out a fundraising plan will also put you in a good position to secure finance. *(For tips, see the May 2008 GRANTfinder Special Feature: Writing a Fundraising Strategy.)*

4. Consider partnership working

It may be useful to explore the potential of becoming a partnership. Smaller organisations with fewer clients may link-up, enabling them to deliver the services they're looking to offer. *The "How To" Guide to Project Succession or Closure,*³ commissioned by the London Development Agency and the Government Office for London looked at partnership working as a means to ensure project longevity and included the following passage: *"partnership working should be second nature and embraced as an opportunity rather than a necessity. Effective engagement of partners has great potential to add capacity, insights, expertise and resource to aid*

effective project succession. It also enables you to bid for larger contracts than your project might be able to handle in isolation."



5. Specify terms of reference

Establishing clear terms of reference will help when you when stating evidence in a funding proposal. You should cover everything that your funded project will address and what the requirements of the service users will be, outlining who will be involved and the anticipated timescales.

6. Bid for funding

As soon as a skeleton plan of all the activities you'd like to undertake has been made, you'll be ready to apply for funding. It is important to build good relationships with the funding providers you apply to, maintaining regular contact. Funding providers themselves are under pressure to make the biggest return possible on their investments. Some may have to report back to the Charity Commission to prove they are achieving their own objectives. For this reason, you need to illustrate how your project perfectly meets the funder's stipulations and can prove sustainability. *(Further information on bidding for funding is provided in the December 2006 GRANTfinder Special Feature: A Beginner's Guide to Successfully Securing Grant Funding.)*

HOW TO DEFINE YOUR EXIT PLAN AND WHAT TO INCLUDE

Once you've completed your initial plans for funding, you can commence a readiness assessment to decide the most likely route to succession and the content of your exit strategy. This will be largely dependent on the nature of the project and its intended future. You may consider one of the following options, deemed suitable for your project, and outline it in your exit plan.

Sourcing new channels of financial support

One of the most obvious ways of keeping your project alive is to research new sources of financial support, through grants, loans, donations or subscriptions. You may consider enlisting supplementary funding sources from the outset by making your organisation known to multiple funding providers. In fact there is nothing to prevent you from applying for more than one programme from, say the Big Lottery Fund, at any one time. Ensuring you have a diverse funding base will avoid the need to rely on a single income source, with possible changes in criteria that are contrary to your project's purpose.

If your project does require additional grant funding, you should retain a portfolio of which funding providers you've previously applied to. You can opt to receive automatic update notifications from GRANTfinder, alerting you to any new funding schemes matching the specifications of your original bid. If you use this function, you will be regularly notified of new and updated programmes that match your requirements.

Contracting your services through the public sector

Once the funding you've been awarded has successfully enabled your project to meet its goals, you may be in a position to seek approval from public sector organisations to fulfil their statutory obligations. For example, a council may

wish to offer a support service for minority groups and you may be working to this aim already. Contracting your services through the council can ensure financial security for your project to continue through sponsorship.

The Community Enterprise Strategic Framework - Support for the Third Sector, announced at the 2010 Funding the Future Conference, sets out Government support to help local groups explore new ways of raising their own finances and set up successful enterprises to "increase their competitive clout when bidding for council contracts".

Diversification as a business

Your project may eventually have the potential to create its own revenue. Once mature, the project may become self-financing, generating income by trading. Something that started out as a means to support a particular cause may find itself fulfilling a chargeable service for those who access it. You could commercialise certain aspects of your project by charging for advice, running workshops for the commercial sector, providing a service or selling a product, for instance through a charity shop. According to *Charity Fundraising Limited*⁴, generating income can add a further dimension to ensuring a charity's sustainability, by charging for services typically provided for free, charging businesses or professional service providers for the expert skills of a voluntary organisation's experienced staff, or hiring out buildings for out-of-hours functions.

Time-limited projects that end when the grant has been spent

For projects that have met their expectations and addressed all their needs, a staged winding down process can be undertaken. You should ensure this is timed so as not to negatively impact on service users and project staff. A scaled closure will also enable administrators to successfully monitor the project's influence and learn lessons for future initiatives.

EVALUATING YOUR PROJECT

Projects that have received one-off grants will usually be required to complete some form of project evaluation. If awarded funding through the Big Lottery Fund, for instance, grant holders will be assigned a grants officer at the outset, who will be able to advise on what the necessary project criteria are, and what must be achieved through the funding. Once the funds have been spent, the grant holder will be required to complete an end-of-grant report, demonstrating whether the objectives of the original application have been met. These reports are unique, according to the type of project that has been funded.

You must ensure you meet all the specified requirements laid out by your funding provider, as you'll need to justify this in your monitoring and evaluation reports. If you can prove the project has been successful and met the funder's criteria, you will be in a good position to approach them, and other funders, for additional support.

Exit strategies are not intended to duplicate these reports, which are conditional as set by the funding provider. Rather, your strategy should explore the potential for your project to progress beyond the point at which funding has run out. This could be a study on the project's capability of continuing under its own steam or an assessment of its ability to attract

investment through alternative grant or loan streams. The end-of-grant report may also look at the possibility of the project becoming self-sustaining by generating its own income as a social enterprise or business. In this instance, you need to look at your project's realistic potential, completing market research into the demand for your services and any competition that exists. You may need to compile a cash flow forecast⁵ to ensure that income streams will be likely to exceed overheads, enabling the project to thrive.

WHERE TO GO FOR ASSISTANCE

Some of the UK's major funding providers give advice on formulating exit strategies, and this isn't strictly limited to the long-term grant makers. For example, BIG assigns grants officers to its grant recipients to work through programme-specific advice. In November 2009, the East Midlands regional office for BIG held a day-long event for funded groups which offered workshops, case studies and signposting regarding issues of future funding and sustainability for projects. BIG is currently developing new programmes and as such, discussions are taking place regarding future funding strategies. BIG's Policy and Public Affairs Manager, Rob Roffe outlines the organisation's position on continuation funding and exit strategies; "as a short to medium-term funder, BIG funding can never be a long-term funding solution. That said, we are keen to explore ways in which we can sustain our investments in the longer term and are currently working up our approach to that end".

In Wales, BIG has provided funding for the Sustainable Funding Cymru website⁶, which houses the Wales Funding Portal. The site includes the GRANTnet funding database, enabling organisations to search for upcoming funding pots that match their ongoing objectives. It also offers guidance and support on raising funds, tips on how to diversify funding and advice on developing an entrepreneurial outlook in order to achieve long-term financial sustainability.

Community Foundations are another popular source of funding for local voluntary groups, offering short-term support towards community regeneration. Typically they fund specific activities on a single year basis, rather than core costs, meaning sustainability is not their main focus. For this reason, they don't specifically require an exit strategy or succession plan. Whilst this is the case, Community Foundations may support some core activity and encourage those with long-term projects in mind to consider sustainability.

John Norrington of Community Foundation Nottinghamshire considers sustainability to be a massive issue for organisations whose projects have long-term aims, stating that "groups have to work in a 'hand-to-mouth' fashion in terms of what funding they can secure." (Further information on community foundations operating throughout the UK is reported under GRANTfinder reference number UG3860 CT: Community Foundation Network.)

EXPERT ADVICE

Local Councils for Voluntary Services (CVS), which exist throughout the UK, offer practical advice and guidance about funding and sustainability. Former Funding Development Worker for Doncaster CVS, Lynne Molloy, knows how important it is for groups to focus on sustaining grant-funded projects. Her role involved a lot of hands-on experience with groups making first-time funding applications. Lynne worked



with a number of groups through the application process and was surprised that some organisations didn't even understand what an exit strategy was. The stock paragraph for quite a few was to state they would "seek out other suitable alternative funders".

Lynne commented, "the need for third sector organisations to have an exit strategy in place has grown considerably over the past few years, a bit like encouraging groups to develop business plans and look at sustainability, along with a clear funding strategy, which any voluntary or community group that is going to be successful and survive should do anyway. The funding opportunities 'grave train' of the past few years is definitely changing. The regeneration monies pumped into places of deprivation, like Doncaster, aren't around anymore, hence groups are going to have to work harder on their exit strategies to ensure sustainability and only the fittest and smartest will survive."



The Charity Commission conducted a research report, *Milestones: Managing key events in the life of a charity*⁷, which looked into funding requirements, including the need to diversify income streams. One of the case studies featured demonstrates how one charity overcame initial problems resulting from grant dependence by developing alternative funding methods such as charging fees for services. The report reiterates the good practice of diversifying income streams in order to reduce the risks of a primary source of funding coming to an end, thereby boosting its sustainability and independence. It also examines the issues and phases of development that are relevant to charities, and includes a checklist of standard questions for trustees to consider at various stages of development.

Michael Pyner, Chief Executive of the Shoreditch Trust, has chaired and spoken at conferences about succession strategies. His focus has been on New Deal for Communities (NDC) projects. In his research, Michael looked at how significant public sector investment can be captured and value for money maximised by community-driven organisations continuing beyond grant funding, using social enterprise, asset acquisition and other methods as a mixed portfolio of approaches. NDC partnerships had guaranteed funding over a ten-year period, which provided them with a funding platform that other groups lack. However, as Michael points out, "there is a shared ethos that the cycle of deprivation must be broken somehow and communities empowering themselves and running efficient innovative enterprises in their own communities might be one way of doing that."

SAMPLE EXIT STRATEGIES

The following are excerpts from real-life exit strategies, provided by a CVS operating in the North of England, as an illustration of how some groups plan for sustainability.

Case study one: "We are in the process of developing a business plan to improve our group's sustainability, by selling our services. We have secured a location and staff of an existing pre-school which opens during term time only, to provide respite for our families out of school time, particularly in the holidays. Parents will be charged for this service, so this will help towards sustainability. We also source low-cost equipment, to sell to our members. Alternative sources of grants and funding are always being sought, but we hold

several annual funding events in order to generate income for the group, throughout the year. We are currently liaising with another provider of services in the local area, in order to build a professional relationship, to support future sustainability."

Case study two: "The community centre will be run as a social enterprise and has identified many genuine means of sustaining itself (cafe income, catering services, room hire & hosting fees, training agreements with schools and Pupil Referral Units, fundraising, office services, Youth Enterprise Scheme etc). Overhead sustainability will be achievable by year two through earned income. It shall be the Project Manager's responsibility to secure further funding for the balance required to fund this post in subsequent years – funding shall be sourced through the Lottery, statutory funding or charitable trusts."

In case study one, the applicant has already predicted where extra revenue will be secured, outlining the services it will charge for and the possibility of involving partners to ensure sustainability. As indicated in case

study two, the project has specified its own income streams to enable its continuation, highlighting through which channels the remaining funds will be sought. Both are good examples of why early planning and realistic projections are necessary requirements to give your project the best prospects of long-term survival. With public sector funding cuts widely anticipated by 2011, it has never been more pertinent to focus on your exit strategy and routes to succession, as meticulously as possible.

If you have found this article useful, you may wish to read the following Special Features:

- December 2006 - A Beginner's Guide to Successfully Securing Grant Funding
- August 2007 - Writing a Successful Business Plan
- December 2007 - Ten Steps to Writing a Constitution
- May 2008 - Writing a Fundraising Strategy
- November 2009 - Starting Up a Voluntary or Community Group

REFERENCES

1. GRANTfinder's new POLICYfinder website: <http://www.policyfinder.org.uk/>
2. NCVO information on Full Cost Recovery <http://www.ncvo-vol.org.uk/advice-support/funding-finance/financial-management/full-cost-recovery>
3. The "How To" Guide to Project Succession or Closure can be accessed at: http://www.eukn.org/unitedkingdom/themes/Urban_Policy/The--how-to--guide-to-project-succession-or-closure_3959.html
4. Article by Charity Fundraising Limited on Income Generation: <http://www.charity-fundraising.org.uk/news/fundraising-articles/income-generation>
5. NCVO's information on cash flow forecasts: <http://www.ncvo-vol.org.uk/advice-support/funding-finance/cash-flow-overview>
6. Sustainable Funding Cymru website: <http://www.sustainablefundingcymru.org.uk>
7. Charity Commission Research report, *Milestones: Managing key events in the life of a charity*: <http://www.charity-commission.gov.uk/publications/rs6.asp#19>