

Exit strategies – factors for success

The Community Fund has always regarded it as important to ensure that projects have a long lasting impact on the lives of disadvantaged people. Accordingly we have always taken exit strategy into account in the scoring of grant applications.

We commissioned this research to investigate the strategies employed by grant holders, and compare what actually happened at the end of their period of funding, with their intentions at the start of the project. Our aim was also to identify the key success factors for sustainable projects and to look at practical ways that we could support these in our future grant-making.



Main points

We commissioned this research to investigate the effectiveness of the exit strategies developed by grant holders and to identify the key success factors, in order to inform our grant-making.

This research indicates that three quarters of those projects which intended to continue are still operating at more or less the same level of activity. These projects have secured further development funding either from the Community Fund or from charitable trusts, have devised complex but innovative funding strategies from multiple sources, or are delivering services or goods for which they receive payment sufficient to sustain their projects in part or in whole. Fourteen per cent were continuing in a reduced form. Only 12 per cent had closed completely.

Nearly one-fifth of the sample represented fixed-term projects which were not intended to continue. Nevertheless more than half of these had led to further related work, some of which had been funded by the Community Fund.

Nearly one-fifth of the sample had received continuation funding from the Community Fund, which represents 34 per cent of those projects which were looking for funding beyond three years.

Only seven per cent of projects continuing had been able to secure service level contracts with statutory authorities, while only four per cent were continuing from general charitable funds.

Key success factors for a successful exit strategy for a project are:

- good business planning;
- a passionate champion;
- continuity of staff and volunteers;
- an organisation which has several sources of funds; and
- involvement of potential continuation funders at an early stage.

Factors militating against project survival are:

- poor business planning;
- changes of staffing; and
- leaving consideration of continuation funding to the last year of a three-year project.

Recommendations to Community Fund

- Promote business planning by the organisations running the projects it supports.
- Consider providing formal advice on exit strategies, signposting to other funders, or acting as a referee for further funding.
- Review its policy on commercial activity by grant holders.

Background

Introduction

A key element of the Community Fund's *Strategic Plan 2002 – 2007* is 'funding to achieve long-term change'. We want to maximise the sustainable long-term difference that our grants will make to the lives of disadvantaged people.

The Community Fund provides short-term funding (initially up to three years) to voluntary organisations for specific projects. An exit strategy is the plan devised, when an application for funding is made, for what will happen after the grant is completed. We have always taken exit strategy into account in the scoring of grant applications.

We commissioned this research to investigate the strategies employed by grant holders, and compare what actually happened at the end of their period of funding with their intentions at the start of the project. Our aim was also to identify the key success factors for sustainable projects and to look at practical ways that we could support these in our future grant-making.

The research study

In early 2002, the Community Fund commissioned Martin Price Associates to undertake the study, with the aim of addressing four key questions:

1. How realistic have exit strategies proved to be?
2. When projects have continued, what can be learnt?
3. Where projects have closed or downsized, what are the key reasons?
4. What can the Community Fund do to maximise the long-term impact of its short-term funding?

The study was planned as follows:

The sample of 203 projects included grants made by the Community Fund for projects in Wales, Northern Ireland, East of England, North East England and England-wide.

The sample was selected from grants which were completed in the year 2000. This means that sufficient time had passed to see what had actually happened after the grant had finished, and to see whether the proposed exit strategy had been achieved.

For each area a sample was selected to reflect the overall pattern of grants in respect of:

- capital v revenue;
- length of revenue grants – one, two, three years;
- size of grant;
- income of organisation; and
- geographical spread.

Face-to-face interviews, telephone interviews, focus groups and desk research were used. Conclusions are based on both qualitative and quantitative research.

Sample sizes are too small to be statistically representative of all Community Fund grants, but they represent a reasonable reflection of the applicant pool.

More details of the methodology of the study and the full report are available on the Community Fund website: **www.community-fund.org.uk**

The findings

Five broad categories of project were identified:

A. A fixed-term project, which ends when the funding ends:

- The problem is solved or the need identified is addressed within the lifetime of the grant, for example a project involving older people in capturing the local history of a deprived community.
- The project may prove or disprove a theory and then give rise to further work, which may be taken up by the organisation itself or by others, for example a particular method of working with disaffected young people may have wider implications.

B. A money injection, required for a specific purpose:

- A capital injection – perhaps to purchase or renovate a building, or to buy a particular item of equipment, for example renovating a village hall, providing more activities and better facilities.
- A revenue injection to develop a tangible item for further use, for example to draw up a training package for later delivery by existing staff.

C. A project which will continue with further grant support. This may come from other charitable funders, the statutory sector or the Community Fund:

- This is the most commonly stated strategy for a project requiring three years revenue funding for salaries and associated costs. Many of these grant sources will also be short-term.

D. A project which will allow the organisation to earn enough income to continue the project by contracting to deliver a service or sell a product developed as a result of the project:

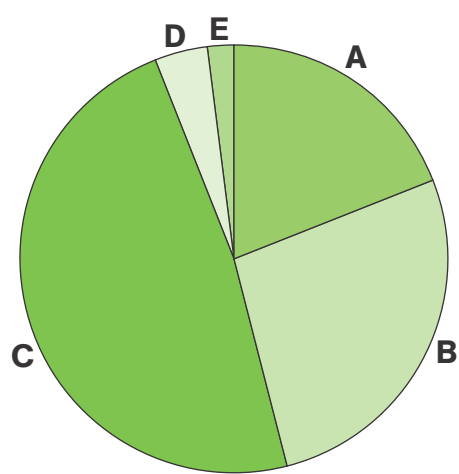
- The project may be a pilot demonstrating the feasibility of an approach, which will then attract statutory funding under a service level agreement. An example would be the development of an innovative mental health project which is funded under contract by the National Health Service.
- A tangible product will be produced, such as a video or book, and sales may be sufficient to pay for subsequent work without grant support.

E. A project which will continue, using funds which the organisation will raise through donations and subscriptions or other general unrestricted funds:

- This can be the route taken by organisations with a community funding base, such as some of the well-known national charities, or even small church-based groups and can include income from charity shops.

Projects in these categories were distributed as set out below:

Exit Strategy Class	Number in sample	Percentage of sample
A. Fixed-term projects	37 – of which 20 have been developed in some fashion	19
B. Money injection, of which six contained a revenue element	56	27
C. Further grant support required, of which 13 have an element of earned income	98	48
D. Earned income only	8	4
E. Donations and Subscriptions	4	2
Total	203	100



How realistic have exit strategies proved to be?

Exit strategies have proved to be realistic in many cases and many projects have been able to do what they planned, even if they had not secured further funding from the original intended source.

Nearly one-fifth of the sample (19 per cent) represented fixed-term projects (Category A) which were not intended to continue. Nevertheless more than half of these had led to further related work, some of which had been funded by the Community Fund.

Some fixed-term projects received further funding because it became apparent that not all their objectives could be achieved in a three-year timeframe.

Most building projects (Category B), which constituted over a quarter of the sample (27 per cent), have achieved their aims, with the desired increase in activity as a result of a capital grant. As a general rule these seemed to be successful in meeting their aims both in strictly numerical terms – numbers of extra sessions – number of extra users – but also in less tangible areas. For example, the Community Fund has clearly had a major effect on villages by revitalising village halls.

Looking at the 54 per cent of the sample which were aiming to continue the project beyond a three year grant (Categories C–E), three quarters were continuing at more or less the same level of activity. Fourteen per cent were continuing in a reduced form. Only 12 per cent had closed completely.

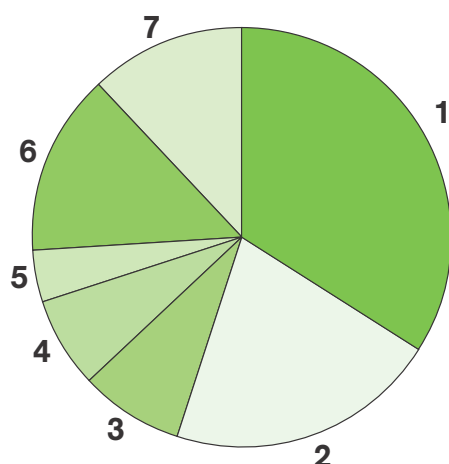
Exit strategy	Number	Percentage of sample aiming to continue the project
1. Have received Community Fund continuation funding or a second grant	38	34
2. Multiple funding streams, earned income	23	21
3. Single source with further short-term funding	9	8
4. Earned income from service level contracts with statutory authorities	8	7
5. Continuing from general charitable funds	4	4
6. Have downsized the project, taken it in house or is run by volunteers	15	14
7. The project has closed, jobs are lost	13	12
TOTAL	110	100

Nearly one-fifth of the sample (19 per cent) had received continuation funding from the Community Fund, which represents 34 per cent of those projects which were looking for funding beyond three years.

Only seven per cent of projects continuing had been able to secure service level contracts with statutory authorities, while only four per cent were continuing from general charitable funds.

The Community Fund was rarely blamed for closure. In several cases, the parent organisation had lost its core funding – perhaps losing a key government grant – bringing down the project as well, although occasionally it proved possible to transfer a successful project to a new organisation. Another difficulty was lack of synchronicity with European Structural Funds priorities and measures. Delays in funding could be particularly problematical.

There was little formal trading by grant holders as a way of sustaining their projects.



Key success factors for a successful exit strategy for a project are:

- Good business planning – a good sign was a business plan which had been developed before the idea of seeking Community Fund support.
- A passionate champion:
 - This may be a local person, for whom the project is a driving force and who will make things happen by sheer willpower;
 - A worker who is devoted to the type of work undertaken, eg an outreach work with disaffected youth, working with users of the mental health services, etc.
- Continuity of staff and volunteers.
- An organisation which has several sources of funds – not only are there multiple funding streams, but they overlap in their timescales, so that the organisation itself is not at risk or vulnerable at any one time.
- Involvement of potential continuation funders at an early stage.

Factors militating against project survival are:

- Poor business planning – business plans which are produced simply to satisfy the Community Fund, or another funder, and which are not used as a working document for development and self-assessment.
- Changes of staffing, which may be caused by the inherent instability of short-term employment contracts or by low salary rates. A three-year project which loses a key member of staff after eighteen months may not recover.
- Leaving consideration of continuation funding to the last year of a three-year project.

Recommendations

What can the Community Fund do to maximise the long-term impact of its short-term funding?

- Promote business planning by the organisations running the projects it supports.

Some small organisations are intimidated by the prospect of having to produce a business plan. There is a role here for the Community Fund in demystifying the process and perhaps promoting 'user-friendly' business planning for small organisations.

- Consider providing formal advice on exit strategies, signposting to other funders, or acting as a referee for further funding.
- Review its policy on commercial activity by grant holders.

Some respondents felt that the Community Fund was not sympathetic to innovative trading ideas. This may simply reflect the complexity of current charity law, of which the Community Fund may be more aware than the recipients of its funding. However, given that this is seen by many as an area of growth for the future, the Community Fund needs to ensure that it is open to new ideas on permissible commercial activities.

Community Fund response

The Community Fund has always regarded it as important to ensure that projects have a long-lasting impact on the lives of disadvantaged people. Accordingly we have always taken exit strategy into account in the scoring of grant applications.

We welcome these findings as they give weight to our continuing with this approach, and lend credence to project planning skills which voluntary sector agencies also recognise as important.

We realise that some organisations find this more difficult than others, and so signpost to organisations who can help with this (and other issues) in our application pack and feedback letters where appropriate. We do not see the direct provision of advice as our key role as there are many existing organisations who assist organisations with this area.

We will be reviewing the role and content of business plans so that the plan becomes a management tool for the grant holder rather than simply providing additional information for the funder.

We have already reviewed our processes to ensure that grant holders do not delay taking forward an exit strategy, and have made the following changes from mid September 2002:

- Terms and conditions will include the requirement to produce a fundraising plan.

- The monitoring forms at the end of years one and two will include a question about steps taken to secure funds.
- This form will also include prompts regarding reapplying to us within the last 12 months before the grant ends.

Regarding commercial activity by grant holders, there is a need to get a clearer picture of the different types of income generation currently supported (or not supported) by the Community Fund. Such a review may highlight the need for further policy clarification on some issues as well as for clearer guidance to staff and grant holders to ensure a more consistent approach.

For more information please contact:

Corporate Policy Team
Community Fund
St Vincent House
16 Suffolk Street
London
SW1Y 4NL
Phone: 020 7747 5242
Email: research@community-fund.org.uk