

Guidance Note 3

Funding Strategy

A **Funding Strategy** encapsulates the purpose, direction, scope, and depth of your organisation's external funding activities in a document. This document should be the single most important reference point within your organisation for an individual who is considering pursuing an external funding application. It describes the overriding purpose underlying your organisation's funding activities together with the resources, protocols and procedures that govern these activities.

A **Funding Routemap** is used to guide you from one funding programme to another in pursuit of your goals. You can find further information about Routemaps elsewhere in this site.

Why have a funding strategy?

The *raison d'être* of a Funding Strategy is simple; to improve an organisation's effectiveness in winning external funding, place external funding activities in their proper organisational context, ensure that external funding meets organisational priorities, and ensure that the resources of the organisation are deployed in a co-ordinated and cohesive manner.

As the pursuit of external funding becomes ever more important for organisations there is a danger that enthusiastic and well-meaning individuals may unwittingly undermine each other's activities resulting in wasted effort, frustration, and in extreme cases, outright confrontation.

The Funding Strategy can be an important aid to management in their efforts to ensure that this does not happen.

Moreover, in an age when 'time is money', an organisation's management will likely wish to know about the activities on which staff time is being expended. They would also wish to know whether this time is being expended efficiently and effectively. The Funding Strategy can inform all concerned about management's interest in this field and detail how they intend to monitor and evaluate the situation. By way of example, whether Performance Indicators will be used to monitor performance, and which methods will be used to evaluate effectiveness.

In this respect, the Funding Strategy can identify and map the resources available to support external funding activities, and explain the process and mechanisms designed to harness such resources

Key concepts in external funding

Your project and its application(s) for funding should ideally lie at the confluence of three needs, as shown below:



The Funding Strategy deals with the area shaded in yellow which considers the needs of *Your Organisation* and places the pursuit of the external funding within the organisational context.

The *Client Needs* is often referred to as "market needs" and must be distinguished from the 'wants' of your organisation. The Funding strategy may inform the reader about the needs in which your organisation has an interest (e.g. training for unemployed individuals), or may direct the reader to key policy documents that identify the market niche(s) within which your organisation operates.

The needs of the *Funding Provider* is usually written in a prospectus (in paper or electronic format) or guidance specific to that funding programme. Again, the Funding Strategy can identify the key funding providers of interest to the organisation and direct the individual toward reference material provided by the funding provider on a key programme.

An operational document

Too many strategies are written with good intention, launched in a fanfare of enthusiasm and then gather dust because they are not acted upon for whatever reason. Such a strategy is simply not worth the ink that was used to write it.

To avoid this fate the strategy must be **Operational** in that it has a direct relevance to the person concerned who in turn must feel a degree of ownership of the strategy, feel that the document is actually a useful aid to them, and feel that the document has a degree of authority that cannot be ignored.

Senior managerial support for the strategy is important with regard to the document's authority but is not sufficient by itself to encourage widespread and everyday reference to it. There are many different approaches to engendering a sense of common ownership of strategies that are beyond the scope of this page suffice it to say that internal presentations to key stakeholders within the organisation is important.

A good operational strategy should:

- ⚡ be short and to the point - don't waffle-on !
- ⚡ inform the individual about the key funding sources of relevance to the organisation, and where to find more information about the funding programmes
- ⚡ inform the individual about the steps that should be taken in order to secure support for a bid for external funding and the project that is implied, together with the processes, procedures and mechanisms put in place to achieve this
- ⚡ guide the individual to key reference material that is the accepted best practice of the organisation; for instance, contractual arrangements with partners
- ⚡ detail the arrangements for monitoring, evaluation and review of the bids and projects
- ⚡ change with the times, reflecting changes in the external funding environment and changes within the organisation (e.g. a new 'best practice' contract is developed by 'operations' division).
- ⚡ not introduce an over-bearing bureaucracy that smothers the flair, creativity and enthusiasm of individuals but nonetheless makes it clear to the individual that a degree of control and co-ordination is being exercised.

We cannot give prescriptive guidance on exactly how to achieve the above because your solution will be tailored to the nature and requirements of your organisation.

But we can provide some useful pointers to the scope and format of a document that could achieve the aspirations described above. And then direct you to an example document.

Scope

- ⚡ Funding aims of the organisation
- ⚡ Business Plan summary of aims, objectives and principal targets

- ⚡ Key Business Factors (e.g. company reserves)
- ⚡ Funding objectives and outcomes
- ⚡ External Funding coverage (all funds or selected funds)

- # People, systems and organisation
- # Steps in securing support (process, procedure and method)
- # Resource availability (financial services, reference material etc.)
- # Financial considerations (capacity, gearing, leverage, yield, risk)
- # Key Performance Indicators
- # Review periods for the strategy
- # Annex containing signposts for further information on funding sources.

Format

- # **Paper based document:** the traditional approach, it has the advantage of being a familiar format that can sit on the table-top and therefore has a 'presence' in the work area
- # **HTML based document:** a modern and flexible format through which the Strategy can be connected to key reference material and other information sources, aid communications, be accessible to all (with access to a computer), be easily amended, and introduce sound, pictures and external data to the document.

Typical subject coverage of a Funding Strategy

In the text below we describe a typical subject coverage for a Funding Strategy that you may wish to adopt. In so doing we distinguish between core subjects that we feel should always be present in a strategy, and optional subjects that you may wish to consider.

You then have the option of reading a mock paper-based Funding Strategy that was prepared for a training organisation in the UK. Again, please feel free to adopt all or part of this strategy at your discretion.

Director's Introduction

What is the Funding Strategy ?
What is the Strategy's purpose ?

Aim of the Funding Strategy

Statement

Vision, Mission and Strategic Objectives of the organisation

Relevant to the Funding Strategy

Key Business Factors within the organisation

- # Staff
- # Financial reserves
- # Profit forecasts
- # Client target groups
- # Intellectual property
- # Partnerships

Strategic Objectives;

- # Business Objective
- # Linkage; seeking complementarity, synergy and integration
- # Intelligence (funding programmes and approaches)
- # Prioritisation
- # Action Plan approach
- # Monitoring evaluation and review

Capacity limit of the organisation

Staff costs (gross & net), Running Costs (rent, rates, heating, lighting, stationery, telephones etc.)
Budgets for product development, training costs etc.

Reserves
Financial forecasts for 2 years
Staff costs
Running Costs
Inflation
Reserves

Gearing ratio (optional)

Minimum }
Optimum } Present and Planned
Maximum }

Leverage Ratio (optional)

Targets from partners (taking)
Targets for partners (giving)

Yield (optional)

Gross costs (bid preparation, project management)
Financial award to the organisation
% Yield (Financial award / gross costs)

Risk

Risk matrix

People, Systems & Organisation (optional)

Contact point for external funding / liaison with consultants
Contact methods (E-Mail, Telephone, Fax)
Capacity monitoring
Baseline and Resource forecasting
Communication across the Group re: funding availability
Cohesion of divisions in search for funding
Integration of project components re: divisions

Key Indicators

1. Bids made/won by the organisation over a fixed period
2. Bids made/won in which the organisation participated as a partner
3. Time and resources required for bidding
4. Gross Revenue from successful bids won by the organisation
5. Gross Revenue from successful bids won by partners
6. Net value of bids to the organisation from own bids and from partners
7. Gearing ratio planned and actual
8. Leverage ratio planned and actual
9. Yield %
10. Additionality - e.g. training hours

Strategy review

Process (diagrammatic)
Timetable

Action Plan

Funding Priorities
Linkages
Partners
Resources
Timetable

Some terms explained

Intelligence

Identifying the funding opportunities which are relevant to the business needs of the organisation, and the approaches to access these funds - especially through the development of partnerships.

Complementarity, Synergy and Integration

Although there are many different funding sources there are often considerable overlaps in their aims, objectives and intended outcomes. Moreover, these funding sources can often be used to 'match fund' each other such that elements of a project can be funded from different but complementary sources. As such, you can identify 'family groups' of funding programmes with similar aims.

Optimum capacity/Gearing Ratio

Different funding sources have different 'match funding' requirements usually expressed as *cash* or *in-kind* contributions to a project by the applicants. An organisation has an inherent 'capacity limit' constraining its ability to service external funding beyond a notional safe limit which can be expressed as a 'gearing ratio'. Where an organisation has a gearing ratio of 1:1, it is fully committed to servicing the funding it has received (i.e. 100% of its cash and in-kind resources are committed to servicing the external funding already won). A gearing ratio of 1:0.10 means that the organisation has won 10 times LESS the funding which it can safely match. A ratio of 1:15 indicates that you're over the limit!

Leverage Ratio

An organisation can increase the capacity limit for its project by drawing upon the match funding capacity of partner organisations. An organisation can therefore set itself a project target for attracting additional resources from partners expressed as a ratio. For example, a ratio of 5:1 means that the organisation will seek to increase its own capacity fivefold in order to match the external funding.

Yield

Some sources of funding are more difficult and time consuming to win than others whilst the costs of running projects are likewise higher for some funding regimes than others. An organisation considering applying for funds under a funding programme needs to be familiar with the 'hidden costs' of the application process and project management, and these costs should be built into the project.

A percentage yield can be pre-determined and retrospectively calculated from monitoring returns such that the gross costs charged to the management of the project can be differentiated from the actual or real costs of preparing and running the project.

Risk

Many funding sources are based upon models of competitive bidding and success cannot be guaranteed. However there are ways in which this element of risk can be minimised, such as good project preparation, and the strategy document could explore some of the options. Moreover, there are also certain risks associated with the development of a project, the search and retention of project partners, and the provision of 'match funding', and the Funding Providers will often offer recommendations with regard to the minimisation of this element of risk.

Action Plan

Whilst the Funding Strategy provides the *raison d'être* for activities linked to external funding and charts the general direction and priorities which should be pursued, the Action Plan will provide the priorities, timetable and resources that will be employed in applying for the external funding. This is the dynamic element of the strategy from which performance will be measured against key indicators.

Key Indicators

Progress should be measured against key indicators which are Single, Measurable, Accurate, Robust, Timebound and Agreed (SMARTA). We suggest no more than 10 quantitative and qualitative indicators against which progress can be monitored and success evaluated.