Core Funding Strategies

Guidance Notes No 6

WHAT ARE CORE COSTS?

Definition: core costs are the expenditure budgets that are not connected with the levels of activity undertaken by an organisation. They are the awkward costs that are difficult to associate with any specific outputs, as they will exist **before** and **after** a project has been running.

Why are they important? These costs will always need to be funded, whether the organisation is running 30 projects or just three. They're fundamental to the organisation's survival, but can't be directly associated with any specific outcome.

Core costs can be placed under three headings:

a) Management

- Costs associated with governance, board meetings etc.
- User engagement and consultation.
- Monitoring and evaluation.
- CEO and associated staff.

b) Research and development

- Innovation - costs associated with developing new activities and ways of operating (before they attract funding)
- Quality assurance.
- Staff training and development.

c) Support services

- Telephone, postage and fax.
- IT.
- Finance and audit.
- Income generation (including fundraising)
- Marketing for the organisation.
- Premises.
- Travel and subsistence.
- Personnel.

WHY DEVELOP A CORE FUNDING STRATEGY?

Every NGO should have plans for the future, but a core funding strategy is probably the most essential plan. An organisation can only look ahead with confidence when the fundamental core costs are securely funded.

It is wiser to plan for the **core funding mix,** rather than plan for the overall turnover of the NGO. Ensuring that the essential £75,000 of core funds are raised every year is more important than chasing an overall income target which may bring growth at the expense of long term sustainability.

What stage are you in?

Creating a core funding strategy is a challenge for all NGOs. However it has different forms at each stage of a NGOs evolution.

a) Infancy

- Tend to be heavily dependent on one funding source.
- Easy for growth to be confined by that funder's capacity to provide more money.

Problem: reliance on one main funding source could limit an NGOs independence.

b) Growth phase

- Easy to get distracted by new funding opportunities as NGOs grow and seek to establish their independence from their original funder.

Growth by a multitude of projects and a plethora of funders is prone to the pitfalls of mission creep and inefficiency.

Problem: This is often done at the expense of any strategic vision.

An NGO should aim for a balance of funding sources by:

- Retaining the original funders.
- Attracting a vibrant mix of project funders.
- Developing independent income streams.

c) Maturity and Maintenance

- Core funding should be derived from a constantly changing mix of sources.
- Ensures the organisation has security from its own independant income streams, but the NGO is also challenged by accountability to major external funders.

Problem: lack of accountability is one of the causes of complacency in mature NGOs. **Within complacency lies the seed of decline!**

WHO SHOULD BE RESPONSIBLE FOR PROTECTING CORE FUNDING?

Ultimately, the core funding security of any NGO is the responsibility of the **trustees.** This requires more than ensuring that the Annual Accounts do not show an unrestricted deficit, all NGOs need to have a long term plan as to how the core funds will be met for years ahead. A core funding strategy is a forward thinking, evolving document. It is more than a policy.

Do your trustees have the skills necessary to protect your NGOs core funds? Would your staff benefit from attending BOND's Core Funding workshop? For more information visit BOND Learning and Training online: **www.bond.org.uk/lte**

An NGO's CEO, Fundraising Director/Manager and the Finance Director/Manager will need to develop the actual strategy and manage its implementation. Each project manager will need to understand how their project budget contributes to the overall strategy.

ENSURING THE SUCCESS OF YOUR STRATEGY

Who should be involved in creating the strategy?

It is advisable to get a wide range of people involved in the creation of a core funding strategy in order to ensure the plan meshes with other organisational activities. It's important to engage people at the start of your planning. Incorporating a sign-off mechanism ensures participants take the design of the strategy seriously.

How will I know the strategy is succeeding?

You won't, unless you have planned in a monitoring mechanism that requires a regular assessment of the strategy. Working monitoring and evaluation into the strategy from the beginning ensures you know if core funds deviate from predicted levels before it becomes a crisis.

THE FIVE CORE FUNDING STRATEGY MODELS

In this section we shall take a look at the five main elements to Core Funding. They are :

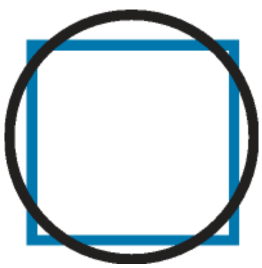
- Strategic Funding
- Apportioning Overheads into Project Budgets
- Self Generated Income
- Developmental Funding
- Cost Reduction Minimisation

The first priority for any NGO is to ensure that the core funds of the organisation are met on a sustainable basis. This will require a subtle mix of different strategies. Each strategy is described diagrammatically, in the following format:

The box represents your core costs.

The circle represents the sources of core funding.

Strategy One – Strategic Funding



This is funding from regular, reliable funders who make an open-ended commitment to an organisation. The donor doesn't distinguish between the NGO and its projects – they are seen as the same.

Advantages

Strategic funding can be very advantageous, as it provides continuity and doesn't require too much effort to be put into time-consuming fundraising. However, donors are reluctant to enter into too many of these commitments as it leads to 'silting up' in their budgets, reducing the proportion of their funds which can be applied flexibly.

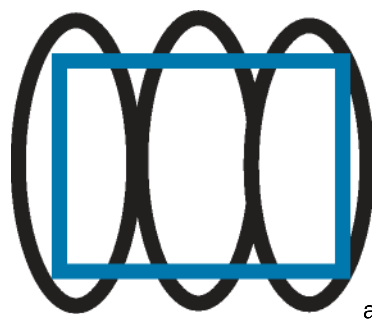
Drawbacks

Strategic funding very rarely increases in value. The first gift usually dictates the level of future repeat donations. For this reason strategic funding will never grow in size as the NGO grows. It may help to get the NGO created and established, but it will have to decline as a proportion of the income as the NGO expands.

Strategic funding is often a high proportion of the income for new NGOs. Typical strategic funders can be:

- Major institutional donor.
- Group of wealthy individuals.
- Faith based community.
- Constituency of members.

Strategy Two – Apportioning Overheads into Project Budgets



This is where the NGO divides up its overheads across a number of projects. Each project budget is expected to make a contribution towards verheads. This is sometimes referred to as the business model, as it is a common formula for determining product pricing. In the diagram above, the circles represent the proportion of the project budget that contributes to core costs. If total allocation from the three projects contributes enough, then the core costs are covered.

Advantages

Apportioning overheads will always be a significant way of funding core costs for most organisations. For growing organisations the apportioning model is usually the most dominant one. It allows NGOs to grow on a project funded basis and break free of the limitations of strategic funding.

Drawbacks

This can lead to unacceptably high overhead allocations if an organisation has only a small range of projects. In the above example, if one project ceases then either the NGO must find a replacement, or spread the overheads across the remaining two projects. This can make the project costs unacceptably high for donors. It can also lead to NGOs developing projects for no other reason than to fund core costs. In this situation it is easy to be 'funding led'.

Apportioning overheads into project budgets could work like this:

An NGO has core costs of around £48,000 pa. If it is relying on apportioning income from projects to cover these costs, using a formula of 15 per cent of project income, total project income will need to be £320,000 (15 per cent is £48,000) to fully fund the core costs.

The income profile would be as follows:

Total income	£368,000
Project Income	£320,000
Apportioned core income	£48,000

This level of income could be derived from a mix of four projects:

Projects	Total Budget	Overhead Allocation: (@15 per cent)
One	£75,000	£9782
Two	£125,000	£16302
Three	£88,000	£11479
Four	£80,000	£10437
Total	£368,000	£48000

A variation on apportionment is **cost displacement** the re-defining of core functions as initiatives or projects. This means keeping the function the same but describing it as a different activity for each new funder.

Warning!
Cost displacement can initially be seen as an astute approach, but it can easily be discredited as being close to the untruthful.

Strategy Three – Own Resources or 'Self Generated' Income

This is where part of an NGO's core costs is funded by activities within its own control - where the donors don't specify how the funds are to be applied. There is no connection between the levels of income from these forms of fundraising and the numbers of operational projects.

The sources of self-generated income should be entirely independent from the levels of operational activities run by the NGO.

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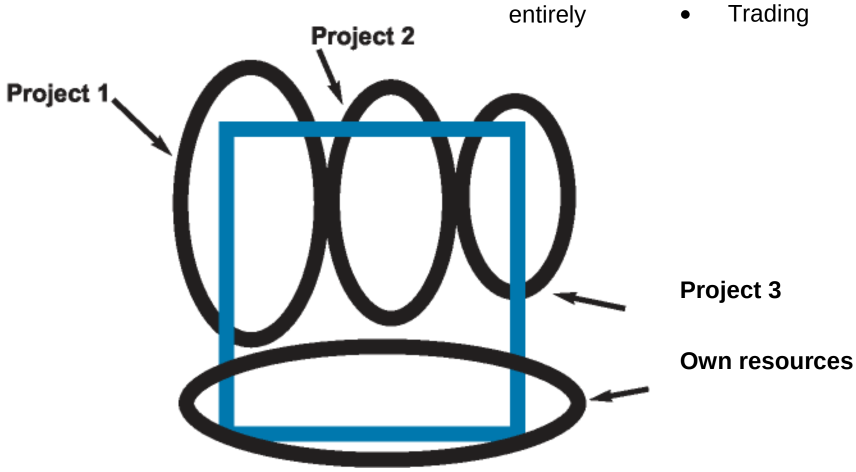


Advantages

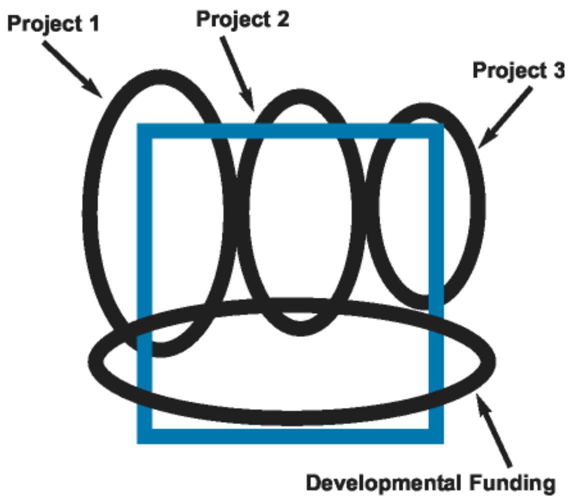
The model described above is an ideal mix, whereby just over 50 per cent of the core funding is derived from apportioned income; a further 40 per cent comes from self generated income and the retained original strategic funder accounts for the remainder.

independent from the levels of operational activities run by the NGO. For example:

- An endowment
- Legacy income
- Membership income
- Fundraising events
- Trading

Strategy Four Developmental Funding

In the model above, the core costs have increased substantially as the organisation has grown. The core funding from the projects is insufficient to fund the increased costs. The NGO has to fund the investment in the organisational infrastructure. This has been achieved through Developmental Funding. This is where a funder agrees to invest in the transformation of an NGOs infrastructure for a defined period.



Advantages
The funding can be for core costs and it is explicitly intended to help an NGO to transform and grow.

Drawbacks
It is crucial to have an agreed ending of the funding. By its very nature this form of funding is time limited. The donors usually have been previous supporters of the cause and they may well want to take a 'break' in funding after the development period.

To successfully secure developmental funding, the NGO needs the following elements:

- Clear unmet needs for their activities.
- Plans as to how the NGO could grow to meet this need.
- Track record showing potential.
- Sympathetic funders (or advocates) who share your ambitions.
- Long term income generation plans.

It's a good idea to build in plans for self-generated income into your developmental funding proposal. Developmental funders will need to be re-assured that your organisation can meet the increased revenue costs of an expanded NGO. Investing in self-generated income (from your own resources) will help to achieve this. It is perfectly reasonable to ask the developmental funder to pay for the investment costs of your self-generated income programme.

If strategic funders can be seen as the original 'pump primers' – helping an NGO to become established, then developmental funders can be described as 'second stage pump primers'.

Developing relationships with funders

Often developmental funders are the NGOs original strategic funders, who are then inspired to access additional funds to meet a shared social need, through growing the NGO.

Building and Managing Relationships with Donors is a BOND workshop that gives tips to ensure this crucial relationship exists in your NGO.

For more information visit BOND Learning and Training onilne:
www.bond.org.uk/lte

Strategy Five – Cost Reduction/ Minimisation

This isn't fundraising, it's astute financial management aimed at reducing core costs to an acceptable minimum.

Advantages
Securing **gifts in kind** and **volunteers** are excellent ways of minimising costs, as long as these gifts and the volunteers are effective in ensuring that core activities are delivered.

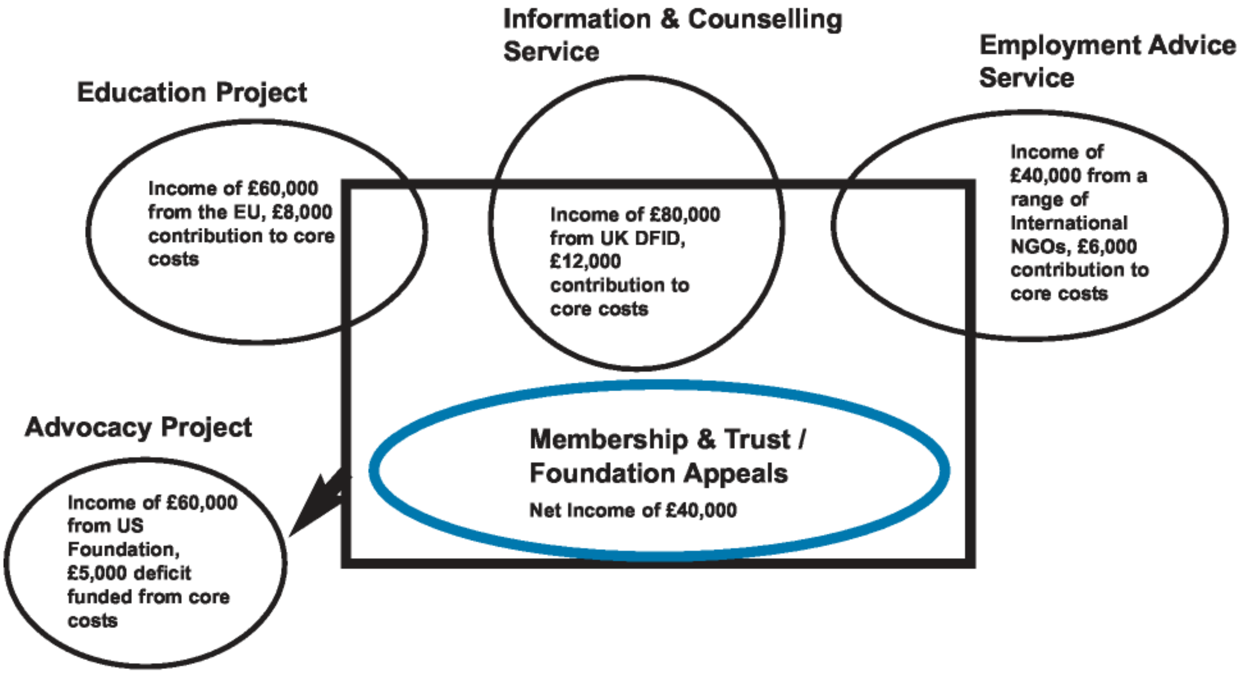
Drawbacks
Both are common routes of funding for emerging NGOs. However, constant attention has to be given to the cost of negotiating gifts in kind and of training and supervising volunteers. It's easy to spend more time and money managing these additional gifts than the value of the savings offered.

Warning!
Managing the core funding by cost reduction is a good indicator of a mature NGO slipping into **decline.**

A CASE STUDY IN DEVELOPING A CORE FUNDING MIX **In this**

example, the NGO has four main Projects:

1. Education Project
2. Information and Counselling Service **3.**
Employment Advice Service **4.** Advocacy



Contribution to Core Costs From Project Income	Project Income	Contribution to core costs
Education	£60,000	**£ 8,000**
Information and Counselling Service	£80,000	**£12,000**
Employment Advice Service	£40,000	**£ 8,000**
Advocacy (£5,000 deficit funded from core costs)	£60,000	- **£ 5,000**
Membership and Trust appeals	£40,000	**£40,000**
Total	£280,000	**£63,000**

Total Core Costs

The NGO's **Core costs** (the office rent, the CEO and the administrative expenses of running the charity) amount to **£70,000 per annum.**

Contributions from Project funding together with, self-generated income from membership fees and appeals to charitable trusts and foundations (unrestricted funds) raise a total of £63,000 *(see above).*

As the core costs are **£70,000** per annum, and the total funds available for core costs is **£63,000,** the NGO has a **core funding deficit of £7,000.**

The options for avoiding this deficit:

- Either find additional funding for the advocacy project (a core activity) in order to ensure that it contributes to core funding, or cut the project down to size so that it is fully funded.
- Increase the net profitability of the membership income and trust/foundation appeals to ensure that all the core costs are funded, as well as the contribution to the advocacy project.
- Increase the net core funding from each of the four current projects.
- Develop a new project with sufficient contribution to core costs to cover the shortfall, including the funds allocated to the advocacy project.

RESOURCES

The continuing work of **ACEVO** (Association of Chief Executives in Voluntary Organisations) in this area has been incredibly valuable to NGOs in the UK and beyond. This organisation remains the best publisher of ideas and techniques for developing core funding strategies, particularly in helping organisations to budget for full cost recovery.

Below are a list of ACEVO resources that will help individuals and organisations researching and implementing a Core Funding Programme.

- **Funding our Future - Core Costs Revisited: £15.00** This is the third edition of the groundbreaking report which describes the current funding environment for NGOs. It argues that there needs to be an entirely new approach to meeting the costs of NGOs.

- **Funding our Future II - Understand and allocate costs: £19.99**
This manual will help chief executives and professional staff in organisations to assist in cost allocation.

- **Full Cost Recovery - A guide and toolkit on cost allocation: £20.00** This publication will assist you in working out the full costs of your activities, including your overheads, as a means to help you write better funding applications and improve decisions about how much you should be asking for, demonstrating to your funders exactly how much your services cost to run.

- **Full Cost Recovery - An electronic guide and toolkit on cost allocation, Interactive CD-Rom: £35.25**
This interactive CD-Rom contains all the information with the Full Cost Recovery publication and also guides you through the cost allocation template electronically.

- **Full Cost Recovery - A guide and toolkit on cost allocation, Guide & Interactive CD-Rom: £44.20** The guide and the CD-Rom work as independent products. However, if you wish to purchase both items ACEVO are offering a special price.

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Acknowledgements

In developing these guidance notes Bill is very grateful to the work of Julia Unwin. It was her groundbreaking publication *'Funding our Future: Core Costs Revisited'* which opened up the debate on this subject in the UK. Her original analyses are still the most informative available.

Finally, all of the participants on the BOND Core Funding training course that accompanies these Guidance Notes have contributed their own ideas and experiences. The more we share, the more we learn and Bill has been in the privileged position of gaining much from all the sessions we have run on this subject.

These Guidance Notes have been prepared by Bill Bruty from Fundraising Training Ltd, the facilitator for the BOND workshop Core Funding Strategies.

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Top Tips

- Plan your core funding models before you plan your overall budgets.
- Cherish your original funders, but don't expect them to fund your growth.
- Diversify your funders as you diversify your projects, but avoid being funding led.
- Ensure that all projects have accurate budgets and that all overhead costs are allocated and paid for.
- Maximise your opportunities to allocate core costs into project budgets.
- Invest in self generated income from day one of your NGO. Never stop experimenting.
- Turn your key funders into advocates and collaborate with them to open up new funders for your NGO.
- Never become too reliant on your own self-generated income. One day it will collapse upon you or you will become too complacent.
- Appreciating donor accountability is one way of retaining your relevance.

***The Guidance Notes Series** aims to provide 'how-to' information for the development sector. These notes are constantly being updated and your comments are welcome.*

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