

## **“Best of” Firelight Newsflashes! 8 September 2009 – Core Funding**

Dear partners and colleagues,

A quick message to let you know that the Firelight Newsflash will take a break during our team's busy time of grant docket preparation. During this time, we will be re-sending prior Newsflashes that received good feedback from our grantee-partners. Today, see the Newsflash from July 2007 on caring for the caregivers and preventing burnout.

We'll return on Monday, 14 September with brand new Newsflashes.

Best,  
The Firelight Team

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**From:** Firelight Newsletter <[newsletter@firelightfoundation.org](mailto:newsletter@firelightfoundation.org)>  
**Date:** May 19, 2008 10:47:11 AM PDT  
**To:** [newsletter@firelightfoundation.org](mailto:newsletter@firelightfoundation.org)  
**Subject:** **Firelight Newsflash! 19 May 2008 - Focus on Core Funding Strategies**

Are you having trouble funding operating costs in your organization? Do you rely on donations or short-term grants to pay for salaries, rent and the like? Would seeing your ongoing, continuous costs help you write funding proposal or decide how much you should ask for? Are you concerned about these issues so that your organization's programs can be sustainable? If the answer is "yes," then read on...

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### **What are core costs?**

Core costs are the budget expenditures that are not directly connected with the activities undertaken by an organisation. They are the ongoing costs of running an organization that are difficult to associate with any specific program outputs. They exist before and after a project has been running. Core costs are also often referred to as operational or administrative costs.

### **Why are core costs important?**

Simply stated, core costs will always need to be funded. And this is necessary if the organisation is running 30 projects or just three activities. They're fundamental to the organisation's survival, but can't be directly associated with any specific results.

## **What are examples of core costs?**

Core costs can be categorized in 3 ways:

### **1) Support services**

- Premises – rent, utilities
- Personnel
- Telephone, postage and fax
- Computers and IT
- Finance and audit
- Travel and subsistence
- Publications such as annual reports

### **2) Management**

- Costs associated with governance, board meetings etc.
- Directors and associated staff
- Monitoring and evaluation

### **3) Development**

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

## **How do you calculate an organization's core costs?**

- 1) First, identify actual costs that are recurrent in your organization, that is monthly or yearly ongoing costs such as salaries, electricity, and so forth.
- 2) Count the number of projects or programs your organization runs. Estimate the percentage of time or effort that is devoted to each project in your organization.
- 3) Figure how much of the core costs are included in each project budget currently.
- 4) Make necessary adjustments in overall and project budgets based on this comparison. (This may require a budget change request to your donors.)
- 5) From this point, always consider what is the appropriate percentage of core costs and include them in future project budgets.

Note: Normally donors will understand that you need core costs and are not negative to pay for a share of them. However, they may have a limit on the percentage of core costs they will fund as part of the overall project budget.)

## **What is a fundraising strategy?**

A fundraising strategy is a plan that defines:

- what your organisation was set up to do and its main areas of work,
- what your funding needs and priorities are over the coming period of time, for example 3 years,
- how you intend to raise that money, and
- where you will raise it from.

It is most important thing is to be realistic in your fundraising strategy. You probably have lots ideas of how you could spend a large amount of money – but you are unlikely to get everything you want immediately and you may have to be prepared to adjust your plans. So to avoid disappointment, make sure your targets are achievable.

### **Why develop a core funding strategy?**

Every organization 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.

Remember that each project should make a contribution to your organization's core costs. Your fundraising proposals should incorporate this. Ensuring that the essential core costs are raised every year is more important than chasing an overall budget target which may bring growth at the expense of long term sustainability.

Most funders today realise that organizations need a strong core base to service their projects effectively. Don't hold back from fundraising for core costs. Explain that your organization makes a small amount of money go a long way.

### **What is the idea of “full cost recovery”?**

Whatever method of fundraising you use, you should aim to apply the principle of full cost recovery. This means accounting for all the money needed, not just the obvious. So, for example, if you are raising funds to make new posters, don't just include the printing costs - include the staff salary and office costs for the time you spend on design, dealing with the printer, transport costs for distributing the finished posters and so forth.

### **Top Tips - Core Fundraising Strategy**

- Figure your core costs before you develop your organization's overall or projects budgets.
- Cherish your original funders, but don't expect them to fund your organization's growth.
- Diversify your funders as you diversify your projects, but avoid being funding led.
- Ensure that all projects have accurate budgets and that all core costs are allocated and paid for.
- Maximise opportunities to allocate core costs into project budgets.
- Explore self-generated income from day one of your organization. Never stop experimenting.
- Never become too reliant on your own self-generated income.
- Turn your key funders into advocates and collaborate with them to open up new funders for your organization.
- Remember that donor confidence is a very important part of organizational sustainability.

## **Planning for a Sustainable Future**

Sustainable thinking means that you are doing long-term planning on what you need to do your work, achieve your goals, run your projects, or expand your current programs.

*Always keep the following questions in mind:*

- What are your organization's plans for the next 12 months?
- What financial resources do you need to meet these plans?
- What are your organization's plans for the next five years?
- What are we relying on to deliver these resources?

Sustainable thinking means you are always strategizing about how you are planning to get vital funds and thus how you will continue your organization's important work with vulnerable children, families and communities.

*Adapted from from British Overseas NGOs for Development (BOND)'s Guidance Notes #6, which is attached for more information. Additional BOND resources can be found at: <http://www.bond.org.uk/pubs/index.html>.*

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As part of the Firelight Foundation's Monitoring, Evaluation and Technical Assistance (META) Program, Firelight provides "Newsflashes" to share relevant resources and information with our active grantee-partners via weekly emails and via post on a monthly basis. We hope that by facilitating access to information for grassroots, community-focused organizations, programming for children and families, as well as organizational development, is enhanced. Past editions of the Firelight Newsflash can be found on our website: <http://www.firelightfoundation.org/newsflash.htm>.

We welcome your comments, feedback and ideas for upcoming Newsflashes at [newsletter@firelightfoundation.org](mailto:newsletter@firelightfoundation.org).



## Core Funding Strategies

### 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](http://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:

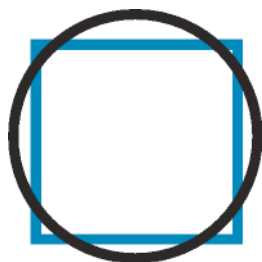


The box represents your core costs.



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 'sitting 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 overheads. 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
<b>Total</b>	<b>£368,000</b>	<b>£48000</b>

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.

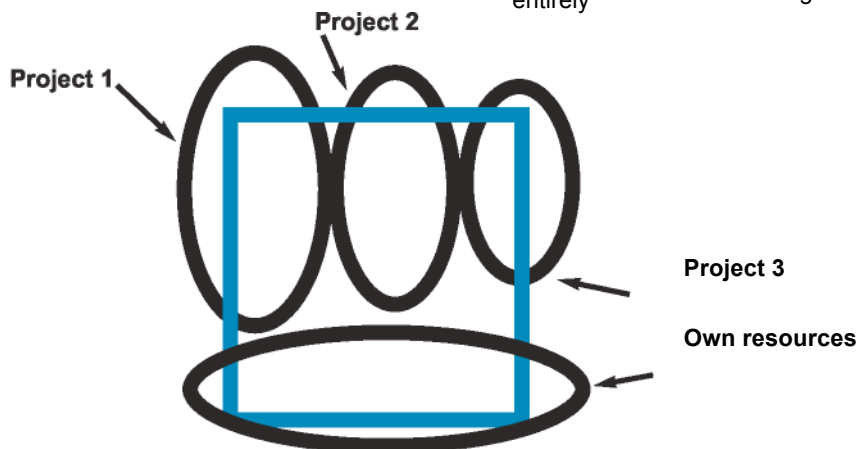
The sources of self generated income should be entirely

### 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.

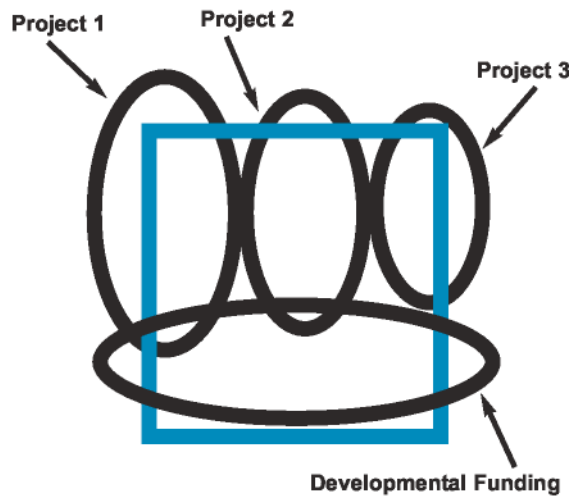
independent from the levels of operational activities run by the NGO. For example:

- 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 online:  
[www.bond.org.uk/ite](http://www.bond.org.uk/ite)

## 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.

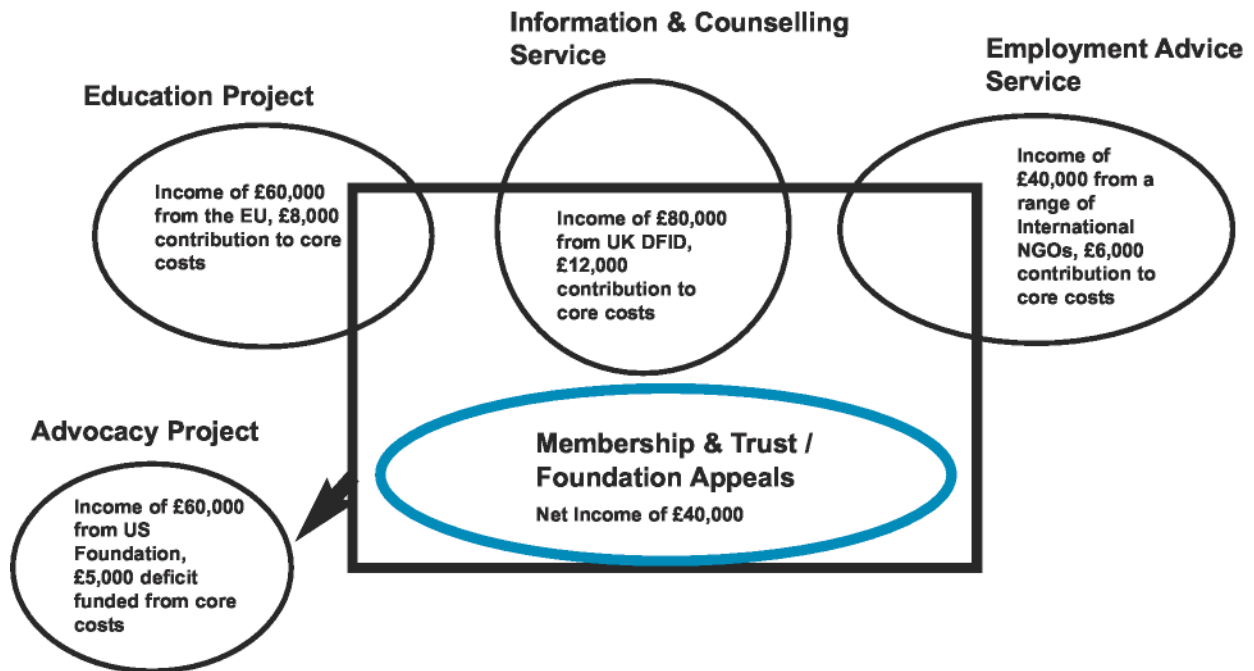
### Warning!

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

Education	
Information and Counselling Service	
Employment Advice Service	
Advocacy (£5,000 deficit funded from core costs)	
Membership and Trust appeals	
<b>Total</b>	

### Project Income

£60,000
£80,000
£40,000
£60,000
£40,000
£280,000

### Contribution to core costs

£ 8,000
£12,000
£ 8,000
- £ 5,000
£40,000
£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.

**ACEVO Contact Details:**

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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.*

## ABOUT BOND



BOND is the network of over 280 UK-based non-governmental organisations (NGOs) working in international development and development education. BOND aims to improve the extent and quality of the UK and Europe's contribution to international development, the eradication of global poverty and the upholding of human rights.

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