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The Business Case for Sustainable Funding Policies

By Lynn Eakin, November 2000

This is the first of a series of articles about the need to assess the impact of the new funder-provider relationship. During the 1990's a quiet revolution has been taking place between funders and the not-for-profit agencies who deliver community-based services. Each funder has made changes independently and there has not been an evaluation of the overall impact on agencies, particularly those with multiple funders. It is the cumulative effect of this shift in how funders pay for services that is causing a crisis in the delivery of community-based health and social services.

There are several funding models that have emerged over the past decade. The most common among funders of community services is the "program model" of funding. To give some examples, federally, Human Resources Canada and Citizenship and Immigration Canada use this type of model. Provincially, the Ministry of Community and Social Services and Ministry of Citizenship, Culture, and Recreation fund programs using the program model. Under the program model, agencies are expected to be more "business-like" in how they deliver services and account for funds. The funder is very specific about the program to be delivered and the use of funds provided.

Each funder strives to ensure they get the best value for their investment by focusing on unit costs for service. Program funders rarely pay the "real costs" of operating a service causing the programs to operate at a deficit. Funding impact is maximized by requiring the agency to make a "contribution". There are, however, few sources from whom agencies can obtain discretionary funds. The very few funders who provide flexibility in their grants are beginning to ask why all of their funds are covering the budget shortfalls of other funders when there are so many unmet community needs which should be addressed by those charitable dollars.

It is the cumulative effect of the loss of flexibility for agencies to use funds, the restriction on movement of resources across programs and the contribution expectations of funders that have precipitated a sustainability crisis in not-for-profit agencies.

Funding Trends

A. Moving from funding agencies to funding programs

The 1990's has seen a trend among funders to want value for money from agencies. The move to program funding reflects the increased desire among funders to be more rigorous and specific about the nature of activities and the expected outcomes for services. This

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level of specificity and increased accountability has its attractions for funders particularly in the short-term. However the sustainability of services and agencies in the longer term has not been evaluated.

On the service side, the ability of agencies to meet local community needs has all but been eliminated. While each program funder is focused in maximising its own services there is no longer the flexibility to coordinate between and across services. It used to be that a number of funders would provide an agency with annual grants that they could use flexibly to fill in the service gaps between their funded programs. Agencies could hire the volunteer coordinator or provide that outreach service to the high risk neighbourhood. During the 1990's what flexibility there was in the service system has disappeared with the decline in discretionary funders and the planned under-funding of programs.

B. The collapse of "contribution" funding

Funders insist on a "contribution." by the agency. Indeed, many funders actually have policies which prevent them from paying the real costs of program operation. The problem is that agencies do not have the capacity to subsidize programs.

In the past many funders were flexible with their funds, appreciating that the general good would be served with their money and that program enhancements would benefit everyone, particularly the service recipients. Hence one funder would be paying the rent on a location and another funder would add an extra worker, a third funder might contribute the salary of the supervisor who would supervise a roster of agency workers funded by a variety of funders. "Contributions" worked when funders shared between themselves. Now, only a very few discretionary funders provide enough flexibility for sharing resources. Agencies increasingly cannot come up with the funds to sustain the organization, much less provide the infrastructure for modern service provision.

C. Arbitrary funding limits on program costs, program management and agency administration result in chronic under-funding of programs

Most government funders today are declaring that they fund "programs" not "agencies". By that they mean funding frontline worker salaries (occasionally some will fund their share of a supervisor) and, providing limited financial support to "non-direct services". Non-direct services includes:

- non-salary operating costs for programs including rent, program supplies, participant transportation etc.
- program management including policy and program development, data collection, record keeping and reception, and
- agency management including financial and human resources services, executive management and Board governance

A number of funders have fixed caps on the non-direct services they will pay (typically this is a fixed percentage of the budget 10-15%). Since these caps have no relationship to the actual costs of operation, by the time program related costs are calculated few funds are available to cover agency overhead and shared services. Reception, information and recording systems, agency management, financial and human resource services are routinely not funded or seriously under-funded.

D. Support for Organizational development is a necessary investment

Sound service management requires that agencies continually improve their organization. For example, currently there are significant opportunities for service innovation and improvement resulting from the use of technology in agency operations. Service improvements can be had delivering coordinated and integrated services.

Some funders have tried to circumvent the need for agency organizational development by developing their program as a self-sufficient unit. For example, some funders have their own management information systems (MIS). As a result, agencies have multiple information systems they are expected to use, none of them compatible with the other and no support is available to help the agency develop an integrated agency information system which they need if service coordination is to be maximized for their clients.

Organizational development cannot be separated from program development. The funding of “programs” not “agencies” is not viable in the longer term.

E. The current funding model is unsustainable

The demands on agencies have never been greater. They are expected to participate in inter-agency groups, work in partnerships with other agencies, meet demanding service delivery quotas, and provide detailed accounts to multiple funders who all have their own forms, procedures and definitions for service and financial data.

Agencies have long since given up trying to plug service gaps in their services and are concentrating instead on trying to keep the partially funded programs operating. Discretionary funding is disappearing, management has been cut to the bare minimum, staff burnout is a serious problem, rents and expenses are skyrocketing and the juggling game will soon prove impossible for many agencies.

What Needs to Happen

There is an urgent need for funders to take stock. They need to come together to evaluate the cumulative impact of their funding policies. All funders, including program funders have an common interest in having healthy voluntary sector agencies available to deliver programs and services to their communities.

The agencies themselves need to take action. They need to come together to share their problems and collectively dialogue with the funders about developing sustainable funding policies which reflect the real costs of operating programs. The attached framework of non-direct service costs may be helpful in breaking out the components of program operation for discussion.

Lynn Eakin is a consultant in the not-for-profit sector who has worked broadly across the various service sectors. She is raising these issues because it is hard if not impossible for agencies and individual funders to broach these issues on their own. Lynn is often involved with helping agencies who are in seriously trouble and has had the opportunity to observe first hand the impact of current funding trends on agency well-being. Her work with funders has given her the appreciation that even though many funders are worried by the plight of agencies, their funding guidelines often prevent them from helping. A dialogue needs to occur between and among funders and agencies.

Please feel free to circulate this paper to those who might have an interest and please e-mail your comments and suggestions to **lynn@lynneakin.com**

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Clarifying Budget Definitions

One of the problems confronting agencies and funders is the language confusion and the lack of clarity regarding the administrative supports required to operate programs. The different approaches by funders to "non-direct service costs" creates confusion and distortions for agencies and funders alike and prevents constructive discussion of the agency services required for program operation. The following categories help clarify the roles and tasks involved in each component and should facilitate a dialogue between agency and funder over what services are being purchased.

Direct Program Costs **costs related to front-line staffing and direct supervision.**
Direct Program costs include frontline staff, immediate dedicated supervisor (often if the program is large enough a coordinator or direct supervisor position is funded) Include administrative staff only if they are specifically and only dedicated to the program over and above regular agency administration. (in some programs an administrative staff is used to do intake, call backs etc. specific to the program and have nothing to do with routine agency operation.)

Program Expenses **costs incurred directly to operate the program**
Program costs are the traditional "program expenses" incurred to operate the program including office/program space (for frontline staff included in the above direct program), administrative supplies, telephone costs, transportation etc. These should be paid for in total by the program funder outside of any administrative calculation.

Central Administration **costs related to executive and financial management**
Central agency management costs including Executive Director, Manager of Finance, financial and human resource staff and executive assistant, an others directly linked to central administrative functions. Central Administration includes both salary, benefits and operating costs such as office space, equipment, supplies etc.

Central administration should be allocated across the program budgets based on the number of direct program staff (FTE.) The central administration formula must include all essential agency activities such as audit, personnel and benefit management and staff support to the Board of Directors.

In some instances there may need to be an extra charge for some funders who demand extraordinary frequency and detail in their reporting.

Program Management **costs related to the management and administration of programs.**
Program management costs including salary and operating costs for positions such as a Program Manager, the cost of common reception and shared administrative support, costs related to information technology, data collection and client record keeping. (Agencies do not run programs in isolation form each other. Programs must be coordinated both

internally and in the larger community, crisis and problems resolved, agency resources managed, case files maintained and client data gathered consistently and according to agency standards and policy.)

These costs are shared across all agency programs based on the number of direct program staff (FTE). (Where programs have a need for a dedicated administrative staff, direct supervisor, or program coordinator these costs would be born by the individual program in addition to these shared program management costs.)