Toward Sustainable Funding,
A Format for Calculating the "Real Costs" of Programs

Introduction
Lynn Eakin and Associates is undertaking some development work in the area of agency funding. This document builds on a previous paper *TheBusiness Case for Sustainable Funding* which can be found along with this and other papers at **www.lynneakin.com**

The development of a common approach to identify and address these funding problems is an essential step to engaging in constructive dialogue with funders. This document proposes a model for cost identification. We are currently testing it with agencies to see if they find it works for them. If you wish to be involved please let Lynn know.

The "Real Cost" Formula
The enclosed sample excel sheet is a sample format we are testing for agencies. The goal is to develop a "real cost" calculating formula that agencies, within and across sectors, could use to calculate the cost of a service. This format would enable you, for example, to tell a funder that they were actually paying only 85% of the real cost of operating their program and that a flexible funder, typically a United Way, was paying the balance. Under this costing model United Way and other flexible funders would not fund "core" but would off set shortfalls of other funders. Obviously the goal over time is to have programs pay for themselves so flexible funding could be used to cover unmet client needs not to cover off administration as is now the case.

We are suggesting you use the definitions as set out. Eventually, if funders would agree to these categories for calculating common or shared costs then agencies could get away from the line by line funding with funders refusing to pay for some things but allowing for others. Using these funding categories would get away from the budget skew caused by line by line budgeting for shared costs.

Currently, We believe much of the "double funding" problems funders complain about is caused by them with their "rules" on what they will fund. For example an agency may be forced to charge more for audit across its budgets because funders will entertain an audit fee while they will not pay for IT costs (even though both are essential costs of agency operation). The agency uses the excess "audit funds" to offset IT expenses. The funds all go to running the program but different rules for line-by-line funding leaves "funding gaps" that agencies struggle to fill.

We are encouraging agencies to test out this format and let us know if it is helpful for total agency management and for discussions with funders. In addition to testing out the format we are also trying to get some sense of whether there is some common pattern among agencies on what they spend in each category. We know this will be a key question from funders… *what is a suitable cost for central administration or program administration?* We want to look at this question by gathering information about what is common now for different sizes of agencies. A straight percentage is likely a bit simplistic since 10% of 6 million is different than 10% of $800,000.

If participating agencies would provide their funding information in confidence to Lynn Eakin and Associates, it can be analyzed and used to develop aggregate information to assist agencies and funders calculated realistic costs of operating programs. Individual agencies would be assured confidentiality.

Please keep Lynn Eakin posted on your progress. Developing a good tool needs your help. Our number is 416 961-3924 or e-mail lynn@lynneakin.com

Sustainable Funding
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.)

Indirect Program Costs **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.

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 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.

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.)

Calculation of Costs for Budget Purposes

Building Occupancy Costs

There are many variations and complexities in calculating office/space costs. Please develop your own formula using the following principles:

- ?? Space used exclusively by a program should be charged fully to the specific program. E.g. a classroom or workshop.
- ?? Shared areas such as entrance, staff room, washrooms, interview rooms should be allocated across programs.

Administrative Supplies and Services

The same principles apply. Where possible charge programs directly for costs related to program and use a consistent formula for allocating shared costs.

Benefits

The cost of benefits should be include within each budget category for each staff person allocated to that category. Direct service benefit costs to direct program costs, the benefits of finance officer and Executive Director should be included in central administration etc.

Calculation of unit cost

Total Central administration costs = Cost per Frontline Staff Position
Total FTE in Direct Programs

$$\frac{\text{Total Central administration costs}}{\text{Total FTE in Direct Programs}} = \text{Cost per Frontline Staff Position}$$

$$\frac{\text{Total Program management cost}}{\text{Total FTE in Direct Programs}} = \text{Cost per Frontline Staff Position}$$

With these calculations not only is the agency able to calculate the actual cost of operation against the funded amount of the program but the agency has a ready way of calculating the cost of adding new/additional staff and programs.

Allocation of Revenues

Many agencies now use “flexible money” (typically United Way funds) to fund administrative and program management costs. With this system of budgeting these management positions will be allocated as expenditures across the program budgets. Since current program budgets do not cover the full costs of program operation, revenue from flexible funders will need to be allocated to program budgets to offset the shortfall. *The amount of flexible funds allocated represents the subsidy the agency and other funders are making to the operation of the program.*

The objective is to have funders assume the real costs of program operation so these flexible funds can be reallocated to direct services for unmet needs.

SAMPLE AGENCY SUMMARY

AGENCY SUMMARY

for the year 2001

PROGRAMS		PROGRA M A	PROGRAM B	**PROGRAM C**	GRAND TOTAL
REVENUES					
GRANTS AND SUBSIDIES					
UNITED WAY		45,000	9,000	97,500	151,500
CITZENSHIP AND IMMIGRATION		300,000			300,000
VIOLENCE AGAINST WOMEN			60,000		60,000
HRDC				650,000	650,000
TOTAL REVENUE		**345,000**	**69,000**	**747,500**	**1,161,500**
EXPENDITURES					
DIRECT EXPENSES					
Salaries		245,350	50,000	531,960	
Employee Benefits		36,800	7,500	79,794	
TOTAL SALARIES/BENEFITS		**282,150**	**57,500**	**611,754**	**951,404**
INDIRECT/PROGRAM COST					
Building Occupancy		12,000	1,000	30,546	
Promotions & Publicity		200	200	1000	
Training & Conferences		1,000	300	1600	
Travel		2,000	500	2500	
Purchased Services		400	320	3000	
Program Expenses		1,900	700	5500	
Office Expenses		500	200	1900	
TOTAL PROGRAM EXPENSES		**18,000**	**3,220**	**46,046**	**67,266**
ALLOCATION-CEN ADMIN		17,250	3,450	37,375	125,341
ALLOCATION-PROGRAM ADMIN		27,600	4,830	52,325	67,266
TOTAL ALLOCATED EXPENDITURES		**44,850**	**8,280**	**89,700**	**201,096**
TOTAL EXPENDITURES		**345,000**	**69,000**	**747,500**	**1,161,500**