



The Challenge of Core Costs

Central administration costs and overheads (sometimes known as 'core costs') are essential for successful programme management. But it can be hard to cover these costs from grants.

Under-funding

Many donors do not like to fund administration costs and overheads. They prefer to make grants for projects with obvious outputs. For instance, they like to be able to say that their grants built three schools or ran ten community workshops. It is hard for some donors to see the direct impact of funding office costs such as rent.

But no organisation can operate without incurring core costs. Some donors recognise this and operate on a long-term basis of organisational development. Others do not.

Under-budgeting

The problem is made worse by the common practice of budgeting (deliberately or otherwise) for direct project costs only. These costs are still incurred so the shortfall has to come from somewhere.

Over-budgeting

Some project budgets turn out to have been over-estimated. This is a problem if a percentage of total costs is then added for administration and the grant is paid on the basis of actual expenditure. When a grant claim is made, the amount eventually contributed by the project to core costs (based on a percentage of actual project costs) will be less than expected.

Overheads budget not always produced

Some NGOs fail to produce a budget clearly outlining their anticipated core costs. This is problematic because it is then not clear what contributions need to be generated. Cost control is also difficult without a budget to monitor performance against.

Financing Core Costs

Finding ways to finance core costs is a difficult area, which will always need a great deal of management attention. There are no easy answers. Dealing with the issue means balancing a whole series of conflicting issues about your organisation's needs and your donors' needs.

There are a number of ways of approaching this crucial issue:

- Apportion core costs to specific projects
- Claim any money that donors may provide for core costs
- Identify sources of funding to cover core costs
- Use unrestricted income to cover some core costs
- Keep core costs to an appropriate minimum

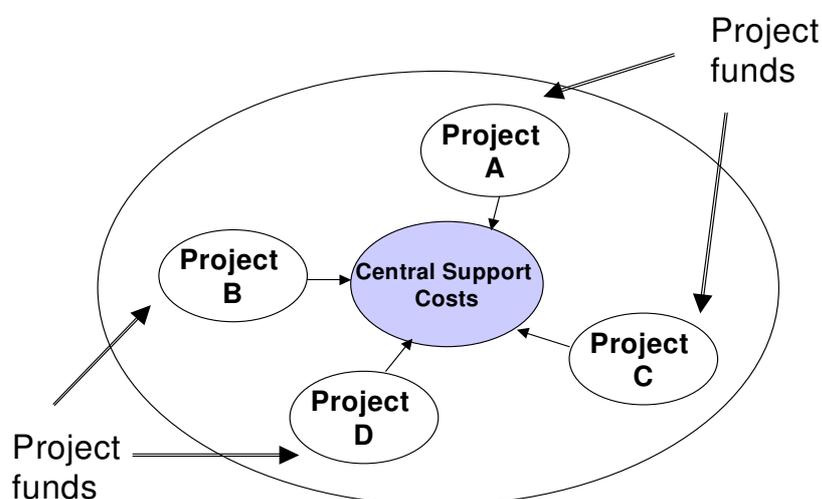
Apportion core costs to specific projects in the budget

Suppose you employ a Programme Co-ordinator who has overall responsibility for managing three projects. A different donor funds each project. You could realistically include one third of the Programme Co-ordinator's time in each project. You could then include their salary as a part of the project budget which you submit to donors for funding.

You can do the same thing with office costs. For instance, you can split the Director's salary between projects. You can also split the office rent and the telephone bill. This is a way of moving costs out of 'administration' or 'overheads' and into direct project costs. Some organisations make this work very well and apportion all of their core costs to projects.

Figure 1 illustrates how funds come in at project level. Then, a contribution is made by each project to cover the central support services it uses. Note how this has the effect of creating an internal customer-client relationship.

Figure 1: Projects can be 'charged' for central support



Claim any money that donors may provide for core costs

Donors have different policies about how much they will contribute to core costs. Some set a fixed percentage of around 5–10% of the total grant. It is easy to overlook this when you are producing financial reports. You must make sure that you claim everything that is available.

Identify sources of funding to cover core costs

You might be able to find sources of funding specifically for your core costs. This is difficult but if you can achieve it, then it leaves you free to apply for funds for specific projects.

Use unrestricted income to cover some core costs

You can also earmark certain unrestricted funds for core costs – such as income generated through charging fees for consultancies or general donations from the public.

Keep core costs to an appropriate minimum

The lower your overall administration budget, the easier it is to fund it. If you can function without recruiting new administration staff, without buying more vehicles for the office, without moving into a bigger office, then you will have fewer core costs to cover.

However, many NGOs try to operate without enough core staff. This can have a real impact on the work you do. It can also make it impossible to carry out all of your activities and meet all of donors' needs.