Heads up

Charities and funders must recognise the need to properly fund overheads, says Mark Salway.

AS I WRITE this, it's January. A gritty month where everything gets colder, we turn off the Christmas lights, and wait for February and cupid. So as it's a serious month, I want to use this column to talk about cost recovery and overheads.

It was back in 1999 when Julia Unwin published her wonderful report *Who Pays for Core Costs* (Acevo). In this report she identifies three clear statements:

- There are overheads and we should be transparent about these;
- Funding these effectively is important to guarantee the future sustainability of charities;
- Different charities have different needs. There is no one-size-fits-all percentage you can identify.

The findings from that report still stand the test of time, and further than that, recent work from Bridgespan in the United States has shown that charities' lack of investment in support functions, and equally poor funding practices from donors, has denuded infrastructures in such a way that charities now lack capacity to scale up. This is truly worrying.

Knowing your overheads

I would say that about one third of all small, medium *and* large charities know their overheads and claim them, and one third of charities know their overheads but feel somehow that they can't claim fully from donors or wish to win business by undercutting others. The remaining third simply don't know their overheads. This is a very uneven playing field for such a basic funding issue.

I am being provocative, but I feel we need to go back to basics on grant and contract costing and pricing to get what we are due as a sector for the fantastic work we do.

So let's look at average recovery rates for a charity against other industries. In the US, the infrastructure body Bridgespan has done some really stunning work on this. Marketing and general overheads in the software sector comes in at 45 per cent of total sales, retailing around 30 per cent and banks 28 per cent. Charities' norm of around 10-20 per cent is lower than all of the other sectors except transport.

> "We need a new covenant and understanding between charities and funders"

So there is a double whammy taking place. Firstly, charities simply don't calculate or know how to calculate their overheads, and many more don't know the negotiation tactics with donors that will bring in more sustainable funding (for example, allocating as much cost to service, output or activity as possible and counting these costs very rigorously). The second whammy is the fact that many charities already have a perceived "norm" for overhead levels that is much lower than other sectors. Something has to break!

The charity mindset is that it is a virtue to work on a shoestring. This has to change. Charities that fail to resource their infrastructure effectively are less able to deliver a quality product which meets beneficiary needs, which leads to a vicious cycle. They certainly won't have any money for innovation, learning and development.

If the commercial sector can claim full costs (and make a profit), then we should be able to as well. JustGiving, responding to the *Daily Mail* criticism on its overheads, says that "charities deserve the best". I totally agree.

When I was benchmarking the IT function at Guide Dogs against other charities, their overheads were on the expensive side. I asked what they were going to do cut costs, and they replied that they employ visually impaired staff and this costs more. It put me in my place!

Funders have responsibilities

On the flip side we have funders, some of whom want to make a "contribution" to overheads. How does that help a cash-strapped charity that can't pay its telephone bill or insurance bill?

Equally, many contract holders are screwing charities down so tightly that these charities stop innovating and lose sight of the added value they create. Other funders say they want to spread their money as wide as possible and so won't fund on a sustainable basis. This has to be wrong.

We need a new covenant and understanding between charities and funders. We need to have open conversations about what it really costs to run a service or activity with a fair proportion of overheads attached. We need to stand up as a sector and educate those who doubt we need the money; we need quality funding for the often fundamental and life-changing work we do. ■

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