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What Government Funding Model is Right for You?

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Introduction

Optimizing the allocation of resources can be challenging for federal agencies due to financial and budgetary constraints. As a result, C-Suite Leadership (i.e., CFO, COO, CIO) across agencies may struggle to accomplish current mission objectives, sustain their organizations and operations, and prepare for future mission readiness efficiently and effectively. In dealing with these financial challenges, organization leadership can consider leveraging alternative funding models.

This article provides an overview of federal funding models that can alleviate budget pressure for shared service providers, including the Appropriated, Fee-For-Service, and Working Capital Fund models. Additionally, it compares these models across relevant factors to provide actionable insights in determining which scenarios can justify implementing an alternative funding model based on each entity's specific needs, objectives, and constraints.

Let's dive into the three main funding models and guide you through how to evaluate and select the most suitable option that works best for your organization.

Discussing Your Organization's Objectives and Limitations

It is important to understand what specific goals, objectives, priorities, and limitations your organization may have regarding its funding and resource needs. Consider creating a list of your organization's key objectives and constraints, such as:

- **Long Term**: What are your organization's long-term plans and strategic goals?
- **Service Offerings**: What services does your organization offer and what is their demand?
- **Funding Stability**: How important is stable, predictable funding for your organization?
- **Accounjtability:** How likely is it that congressional leaders prioritize annual funding over other goals?
- **Financial Flexibility**: How much flexibility do you need in managing resources?
- **Financial Complexity**: What is your organization's level of complexity or variety of funding sources?
- **Administrative Capacity**: What is your organization's capacity for managing financial complexity?
- **Governance**: What is your organization's governance structure or how will you establish oversight?
- **Practicality:** Does the organization have the ability to change funding models, or is there sufficient support in Congress to permit a change?
- **Data:** What is your organization's level of data integrity or access to cost and consumption data?

It is also important to gather input from key stakeholders, to include: organization leadership, financial managers, budget staff, and program leads. Discussing and asking key decision makers about their preferences and concerns for each funding model, as well as seeking advice from management and policy experts, will allow you to gather perspectives and insights on all your options.

Understanding Your Funding Model Options

The following provides a high-level overview of three funding model options, including Appropriated, Fee-For-Service, and Working Capital Fund.

Appropriated Funding Model

The Appropriated (APPR) Funding Model is the formal funding concept for how the federal government operates. In an APPR Model, organizations fund requirements through direct congressional appropriations. Organizations submit their budgeted requirements to congress for approval on an annual basis. Once approved, organizations then execute programs within their appropriated budget to achieve their mission objectives. In this model, the timing and tenure of funding is restricted based on the requirements, meaning if funding is not obligated by the end of the authorized budget fiscal year, then it must be returned to the Department of Treasury.

Fee-for-Service Funding Model

In a Fee-for-Service (FFS) Model, the federal organization's requirements are funded through both direct congressional appropriations and additional funds collected from internal (e.g., chargebacks) and/or external customers (e.g., user fees or public funding). While the organization still relies on annual appropriations, its component(s) may also rely on funding through charging customers for the costs of goods and services provided. Like an APPR Model, the timing and tenure of funding is restricted based on the requirements, meaning if funding isn't used by the end of the authorized budget fiscal year, it must be returned to the Department of Treasury.

Working Capital Fund Model

In a Working Capital Fund (WCF) Model, the federal organization's shared service component(s) are fully funded through collections received from internal and/or external customers. The organization charges customers for the full cost of doing business, both goods and services provided (direct costs) and requirements not directly attributable to the goods and services provided (indirect costs) through indirect rates. By relying on customer-driven funding, WCF organizations operate more like a "business" than those using APPR or FFS models. Unlike APPR and FFS models, funding received from customers is converted to no-year funds, which means that there is no authorization expiration date for unused funding. Note, in order for WCFs to be fully operational, congressional approval and legislative authority is required.

The figure below provides an overview and side-by-side visual comparison of the three funding model options for consideration.

Considering The Pros and Cons

When it comes time to choosing the most suitable funding model for your organization, the decision-making process can be complex. Understanding each model — Appropriated, Fee-for-Service, and Working Capital Fund — and their pros and cons is crucial for organizations aiming to optimize resource allocation, ensure financial stability, and achieve their strategic objectives. This section highlights considerations that can be evaluated to make informed decisions, weighing the benefits and drawbacks of each funding model.

The following themes (in bold) and guiding questions can help your organization's leadership maintain perspective and navigate the funding models as they move forward.

Identifying the Core Problem

- What specific financial challenges are we currently facing?
- What are the primary goals we aim to achieve by exploring new funding models?

Assessing Organizational Needs

- What are our short-term and long-term financial objectives?
- How do our current funding mechanisms impact our ability to meet these objectives?

Evaluating Stakeholder Impact

- Who are the key stakeholders and how are they affected by our funding decisions?
- How do different funding models influence stakeholder/customer satisfaction and engagement?

Analyzing Operational Efficiency

- How does each funding model affect our operational processes?
- What are the impacts on the workforce including upskilling, staffing levels, and morale?

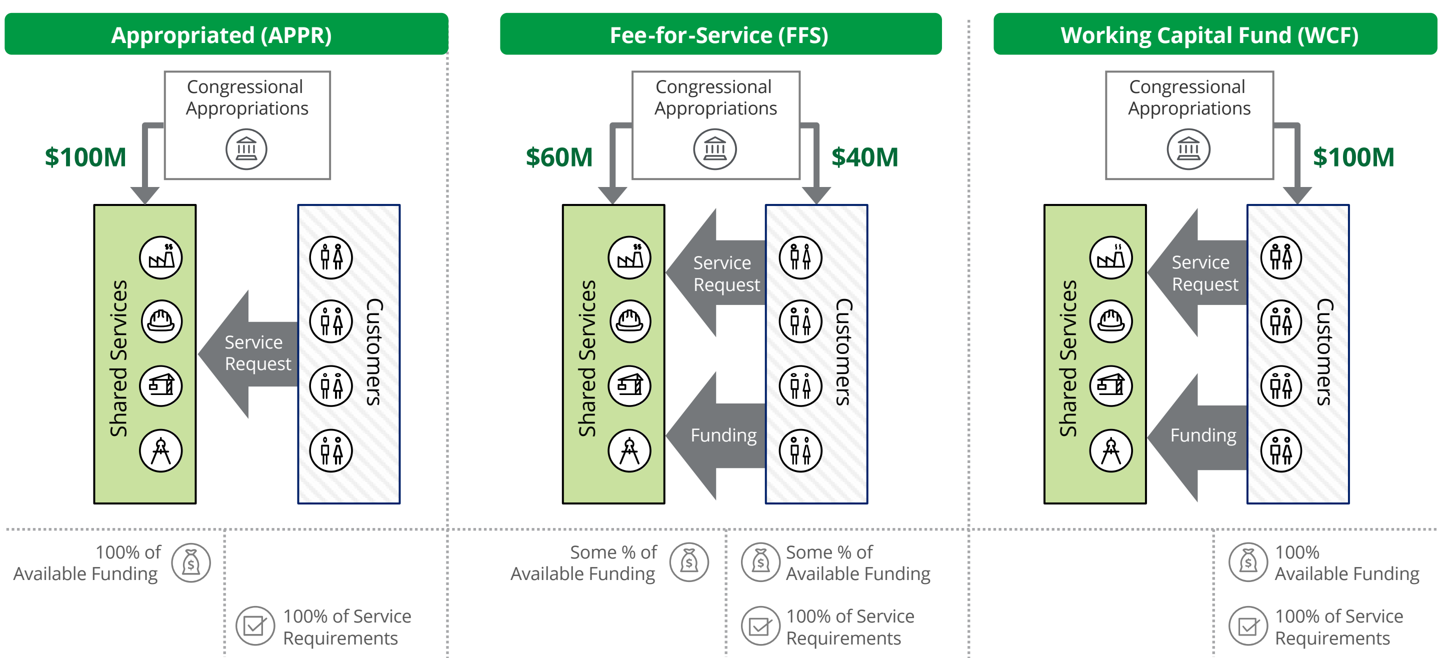
Financial Risk Management

- What are the financial risks associated with each funding model?
- How can we navigate these risks through proper planning and management?

Compliance and Regulatory Considerations

- What are the regulatory implications of a new funding model?
- How can proper alignment with government policies and priorities remain compliant?

Funding Model Options



The following section provides an overview of the pros and cons for each respective funding model — it is important to take note of the various themes that are prevalent throughout each of the scenarios and how it might affect your organization's needs, its stakeholders, and its customers.

Appropriated Funding Model

The default federal funding model relies on funds allocated by Congress. Funding is typically tied to specific budget activities, programs, projects, and activities (PPAs), or special initiatives. Budgeting is subject to government approvals, political processes, and budget lifecycle.

Pros	Cons
Enforces budgetary oversight.	Funding is often restricted to specific uses, reducing flexibility.
Aligns with government priorities as funding is legislatively determined.	Dependent on budget cycles, potentially impacting operational continuity.
Provides moderate stability with reduced optimization of the operating budget.	Challenging to adapt to funding issues, cost fluctuations, or changing needs.
Simplifies the operating model and budget.	Lacks agility to address evolving public needs or respond to emergencies without additional funds.
Reduces administrative burden in managing a fully appropriated operating budget and model.	Demands budget expertise to secure and maintain future funding.
Minimizes customer pushback.	Reduces incentive to align services with customer demand, hindering response to new service requests.

Fee-for-Service Funding Model

This model involves charging users directly for specific services provided and funding (revenue) is related to the demand for services, typically transactional in nature.

Pros	Cons
Service providers are incentivized to offer high-quality services efficiently to attract customers and maximize revenue.	Revenue can be unpredictable due to its reliance on demand, leading to potential financial instability.
Aligns revenue with demand for services, enhancing responsiveness to mission-critical priorities.	May limit access to services for those who cannot afford fees.
Offers moderate stability and optimization of the operating budget.	Reduces simplicity in operating model and budget; Cost recovery may impact customer perception.
Reduces risk to operational continuity during adverse events.	Challenging to adapt to funding issues, restrictions, cost fluctuations, or changing needs.
Offers moderate agility to adapt and meet evolving programmatic needs.	Increases administrative burden in managing a hybrid operating model and budget.
Fosters a customer-centric culture by encouraging alignment of services with customer demand, facilitating accommodation of new service requests.	Decreases funding predictability for less demanded services. Makes funding new or innovative ideas more difficult when there is low or no customer consumption.

Working Capital Fund Model

In this model, users are charged, and the federal organization's shared service component(s) are fully funded through the collections received from these customers. The organization charges customers for the full cost of doing business, both goods and services provided (direct costs) and requirements not directly attributable to the goods and services provided (indirect costs) through indirect rates.

Pros	Cons
Encourages efficient resource use across departments.	Requires careful management accounting and complex operational tracking. Establishing appropriate intra-agency service fees is challenging.
Offers more stability and optimization of the operating budget.	Operating model and budget are complex; Cost recovery may impact customer perception.
Enhances efficiency and flexibility in the funding model, including no-year funds.	Increases administrative burden in managing a fully reimbursable model (100% cost recovery).

Reduces risk to operational continuity during adverse events.	Necessitates new policies, processes, and requirements within a WCF environment.
Offers agility to meet evolving needs or support surges.	Requires detailed tracking of transactional data and a consumption-based billing model.
Aligns services with customer demand, enabling accommodation of new requests.	Needs approval from the WCF Governance Board for budgeting, pricing, rate changes, and service catalog updates.
Fosters a customer-centric culture with high transparency and accountability.	Requires reprogramming, budget submissions, and Congressional notifications, leading to potential pushback from customers.

By thoroughly addressing these themes and guiding questions, your organization can develop a comprehensive understanding of the potential impacts.

Making The Business Case

After qualitatively discussing your organization's objectives and limitations, understanding the funding model options, and considering the pros and cons, it is time to analyze. By using quantitative methods, you can compare each model based on metrics that are most important for you and your organization.

- **Cost Benefit Analysis**: Compare the costs and benefits of each funding model to understand the potential impact on your organization.
- **Sensitivity Analysis:** Examine the "what ifs" and how changes to your budget and/or costs will affect major customers and stakeholders.
- **Scalability and Adaptability:** Consider how each model can adapt and accommodate changes in demand or mission critical resources.

By breaking down each model into its fundamental components and evaluating how they align with your organization's specific needs, you can make a more informed decision regarding the most suitable funding model.

Deloitte follows a methodology to take a holistic, yet tailored, quantitative approach to help you weigh each of the options against your organization's requirements. This all begins by defining key criteria or categories for us to evaluate, including but not limited to: budget stability, budget optimization, transparency & accountability, continuity of operations, agility to flex to customer demand, simplicity in operating model, administrative burden, and customer sensitivity.

From here we can talk through with key stakeholders and rank (e.g., High, Medium, Low) each of the criteria or categories in the tailored context of your organization's mission and vision. After weighing and scoring, we can compare each model along with different scenarios to see which one aligns with your organization's needs.

Making The Decision

Take the time to discuss and debate with C-Suite Leadership, consult with the specialists to guide you along your transformation journey, and promote open communication throughout the decision-making process. Careful consideration of your organization's specific needs is critical to choosing whether to change or pursue a different model. By making a more informed decision and implementing the chosen model more thoughtfully, you can enable your organization to be more ready, willing, and able to meet the challenges and opportunities ahead

Find out more

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