

Voluntary and Community Action

Full Cost Recovery

Funding Information Sheet No. 10

October 2008

The principle behind full cost recovery is simple. Full Cost Recovery (FCR) means your organisation recovers the total costs of delivering a service, including the direct costs of projects and all of the organisation's overheads. Working out the full cost of delivering a service is essential. Voluntary and community organisations, both big and small, are increasingly providing services on behalf of central government, primary care trusts and local councils. FCR is crucial if these services, and the organisations delivering them, are to be sustainable.

Funding Information Sheets

The Funding Advice Service has produced a series of Funding Information Sheets on:

- the different types of grants available
- good practice when applying for funding
- sustainable fundraising

These are available to download from our website or can be obtained from our office.



Why is Full Cost Recovery so Important?

If you are not recovering the full costs of a project you are creating a deficit for your organisation. This deficit has to be met through additional fundraising or through other means. So if you are not achieving full cost recovery you are jeopardising the sustainability of your organisation and hence the services you provide.

What is Full Cost Recovery?

Full cost recovery means funding, or 'recovering' the full costs of a project or service, where the full costs of a project or service equal the direct costs of the project or service plus a relevant share of overheads. So broadly speaking there are two types of costs associated with delivering projects within an organisation.

Direct Costs

Direct costs are easily identified as part of the project as they are incurred as a direct result of delivering a project. Direct costs

are those costs that are needed to produce the output of the project or service itself. For example:

- salaries of people working directly on the project
- their travel and subsistence
- materials or other costs easily identifiable to the project.

Overhead Costs

Overhead costs are those costs needed to manage and support projects and the organisation itself. These costs are sometimes also referred to as indirect, core or "back office" costs and are often shared or split amongst various activities or departments within an organisation. Overheads can generally be broken down into four categories:

1. Premises and Office Costs

These are usually shared among all staff working in an organisation regardless of whether they are working on projects, administration etc. These costs are often overhead but in the case of





FULL COST ANALYSIS MEANS UNDERSTANDING AND CALCULATING THE FULL COSTS OF A PROJECT OR SERVICE, WHERE THE FULL COSTS OF A PROJECT OR SERVICE EQUAL THE DIRECT COSTS OF THE PROJECT OR SERVICE PLUS A RELEVANT SHARE OF OVERHEADS.

space being used directly by the project should be charged as direct costs. A fair proportion of rent and utilities used by management/admin and finance staff (an overhead cost) should also be included. Premises and office costs could include items such as:

- renting and maintaining buildings
- utilities (heat, light, water),
- IT equipment and furniture.

2. Central Function Costs

Associated with the centre of support and administration for your organisation, these functions can either be performed by paid staff or volunteers and could often be broken down into:

- leadership and overall direction of the organisation (Director, CEO etc)
- finance (accounting, budgeting, invoicing, purchasing etc)
- human resources (administering payroll, recruitment etc)
- information technology (purchasing and maintaining computers, email and website etc)
- facilities/ office management (purchasing and maintaining premises, office materials and equipment, e.g. photocopier, faxes etc)
- any other administration tasks (answering phones, managing a library, data processing).

3. Governance and Strategic Development Costs

Because of an organisation's need for planning and regulatory

obligations to remain accountable to the public, funders, government and regulators like the Charity Commission, these costs include items such as:

- audits, legal and professional fees
- trustees expenses and the costs of regular meeting (travel costs)
- strategic development costs including consultancy, research, special trustee meetings to assess the direction of the organisation etc.

4. General Fundraising costs

General fundraising costs are associated with raising unrestricted funds for the organisation. This could include:

- salaries for people engaged in fundraising
- fundraising events, direct mail appeals, membership drives and marketing and publicity for fundraising purposes.

Working out the cost of providing one service is relatively easy. But when your organisation starts providing several different services, calculating the costs for each one becomes more complex, and it is likely that core costs can't easily be allocated to any one activity.

Each project you undertake has costs directly associated with it, such as the cost of staff or equipment. It will also draw on the rest of an organisation's resources. For example, it might occupy some of the Office Manager's time or have an impact

on some central functions, such as finance or training. Although it is possible to identify direct costs and overhead costs separately, full cost recovery works on the premise that both direct costs and a relevant portion of overheads are integral to the support and delivery of a project.

Therefore, the full cost of each of your projects includes both the direct costs and a portion of your back office overhead costs.

To calculate the full costs of a project or service organisations need to be able to:

- calculate the direct costs of the project or service
- calculate the total overhead costs for the whole organisation
- allocate a relevant share of overhead costs to the project.

Cost Allocation

Cost allocation is the next step in achieving full cost recovery. Once you have calculated the direct costs of the project/service and the total overheads for the whole organisation, then it is time to allocate the relevant share of overheads to individual projects. Cost allocation is dividing the overhead costs on a reasonable basis among different people or projects in an organisation. In order to do this, organisations need to determine the 'driver' of each type of cost (any situation or event that causes a change in the consumption of resources) i.e. the factors, which affect whether it decreases or increases. The Association of Chief Executive of Voluntary Organisations

(ACEVO) recommends three different methods for allocating overhead costs.

1. Allocating Cost by Head Count

Head count or the number of staff is a common method of allocating premises and office costs. For example, if there are a total of ten people in an organisation who share the cost of furniture, utilities, IT etc, of which four work in Project A then 40% (4 divided by 10) of the overheads will be allocated to Project A. This may not however be a useful measure if the project has high proportion of part time workers, outreach or volunteer staff.

2. Allocating Cost by Time

Organisations could also calculate the full cost by allocating the salary costs, such as those of your central functions, to projects based on the amount of time certain functions spend supporting each project. If for example the Director spends half of his or her time on Project A, 50% of the salary costs should be allocated to the project.

3. Allocating Costs by Expenditure

Costs are often allocated based on the relative expenditure, or costs, of projects. Governance and strategic development costs can be allocated in this way. For example, if the direct costs of all your projects are £120,000 and the direct costs of Project A are £30,000 then the relative expenditure of Project A to all projects is 25%. Therefore 25% of your total governance and strategic development costs can be allocated to project A.



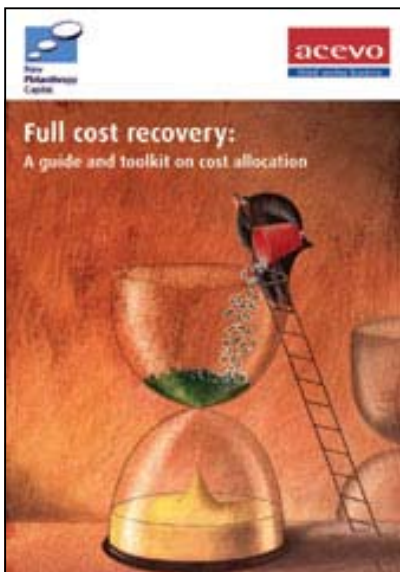
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Templates

There are a number of models and templates to help you calculate full cost recovery. The templates will help you to:

- analyse and count costs
- review costs, particularly overhead costs
- allocate costs appropriately
- fund costs.

For more information on the free full cost recovery cost allocation toolkit, from ACEVO and New Philanthropy Capital, see: www.philanthropycapital.org/html/full_cost_recovery.php or get in touch with our Funding Adviser on 01525 850559.



Tips

- Start with costs that are easy to identify, such as wages and materials. Then tackle those costs – like stationery and phone bills – that are shared.
- Don't forget ongoing yearly costs, such as equipment wearing out and staff needing cover for maternity or paternity leave.
- Voluntary organisations and community groups need to consider walking away or refusing contracts that are under-funded. As well as compromising the sustainability of the organisation, under-resourced services run contrary to the best interests of service users.



“EVERYTHING THAT CAN BE COUNTED DOES NOT NECESSARILY COUNT; EVERYTHING THAT COUNTS CANNOT NECESSARILY BE COUNTED.”

ALBERT EINSTEIN

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How can our Funding Advice Service help?

We can help you discover which grant making trusts, foundations or funders are the most appropriate for your organisation to approach for funding, help you to fill out the application form or provide help and support with any funding related issues.

Please give us a call on 01525 850559 to arrange a meeting so we can guide you through the maze of funding opportunities available.