

FULL COST RECOVERY

What is full cost recovery?

There are broadly speaking two types of costs associated with delivering projects within an organisation: **direct costs** and **overhead 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 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.

The principle behind full cost recovery is simple. Full cost recovery means recovering the total costs of a project including the relevant proportion of your organisation’s overhead costs.

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 a fundraiser’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.

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.

Why are overhead costs a problem for voluntary groups?

Historically, many organisations have not included their overhead costs when submitting bids to funders. This has caused problems because they are effectively committing to deliver projects or services at less than full cost and so will have to use other funds or subsidies to cover any shortfall. Understanding the full costs of projects may not result in full cost recovery every time. However, calculating the full costs means you know the exact level of funding you will require and will help in your budget negotiations with funders. It will also give you a clear picture of how a particular project draws on the back office support resources of your organisation.

By understanding the full costs of a project you can make better-informed decisions on which projects you run, and how you will fund them:

- If you are seeking grant funding you will know the exact amount you need to ask for
- If you are applying to deliver a service for which there is a defined price you will be able to compare the funds available with your full costs of delivering that service
- If you are in a competitive bidding situation it will help you decide if you want to bid, and at what level

Defining overhead/indirect costs

Overhead/Indirect costs are those associated with the core central functions of your organisation, ie the "back office" support for the management and administration for your organisation. These functions maybe carried out by paid or volunteer staff and are often broken down as:

- Leadership (Chief Officer, Director)
- Finance (accounting, budgeting, invoicing, purchasing etc)
- Human Resources (administering, payroll, recruitment etc)
- IT (purchasing and maintaining computers, email, websites etc)
- Facilities/Offices (purchasing and maintaining premises, leasing premises, office materials and equipment such as copiers)
- Other admin tasks (such as answering telephones, managing library resources, data processing, etc)

Why is contributing to overhead funding a problem for funders?

Funders are keen to avoid double-funding and some, such as public sector funders, are legally prohibited from doing so. A common concern is that where funders are contributing to overhead costs they will end up paying for other projects and thereby duplicate funds from other sources. The challenge for voluntary groups is to persuade funders to accept the principle of paying for a project's full cost, including the relevant overhead costs, to ensure that projects are able to deliver and their organisation continues to operate.

ACEVO (Association of Chief Executives of Voluntary Organisations) have produced a Full Cost Recovery Guide and Toolkit https://www.acevo.org.uk/index.cfm/display_page/policy_fcr_intro which provides a template for organisations with a defensible method for understanding and calculating the full costs of projects, activities or services. This template is specifically designed to reassure funders and ensure that concerns over double-funding will no longer exist.

Cost allocation

There are various models for calculating full cost recovery including the traditional budget method, fixed percentages and headcount. Ideally you should have an accounting and financial system in place that can allocate costs on a monthly basis for each current project. It is not a good idea to wait until the end of a project, quarter end, or year end, to go back and try to assign all costs as it may either be too late, or will at the very least be time-consuming.

Advice on full cost recovery

ACEVO (Association of Chief Executives of Voluntary Organisations) have produced a Full Cost Recovery Guide and Toolkit, cost £15, and including software, £30, to voluntary organisations. Further information is available on their website www.acevo.org.uk or call 0845 3548481. Information is also available on the NAVCA website www.navca.org.uk and the Big Lottery Website www.biglotteryfund.org.uk