

## FULL COST RECOVERY

Many voluntary and community organisations find it hard to make ends meet, particularly with regards to funding overhead costs.

Costs such as management, accommodation, governance and development, and support functions like finance and personnel, are essential to the efficient and effective running of a project. If the full costs of a project or service are not funded or 'recovered' then the future sustainability of the project, and indeed the organisation is put at risk.

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### **What is full cost recovery?**

In simple terms it means recovering the total costs of a project, service or activity, including a relevant part of overhead costs.

Every project, service or activity has costs directly associated with it, for example staff time, vehicles or equipment (direct costs). It will also require resources from the rest of the organisation. For instance, it might include some of a manager or trustee's time and also impact on support functions such as finance or personnel (overhead costs).

Organisations must seek to secure funding or income to 'recover' a proportion (or part) of overhead costs, as well as the direct costs of a project. Every organisation needs to recover its full costs, or it cannot pay staff, rent office space, offer new activities or plan for future development and delivery of its services.

### **Why full cost recovery?**

Full cost recovery is important for funders and those being funded. For voluntary and community organisations, it is about developing a sustainable funding approach that covers the true costs of delivery. For funders, it is about developing greater transparency about funding decisions and improving relationships with funded organisations.

The purpose of full cost recovery is to help organisations have a better understanding of finance and costs. A lack of financial understanding can prove highly damaging. It

can bring about financial insecurity and jeopardise the organisation's future. By calculating the full costs of each project or activity, organisations can make more informed decisions about managing costs and secure funding or income to recover them.

It is critical that voluntary and community organisations understand the true costs of managing a project, service or activity. In the past, overheads have been classed as 'hidden extras', distinctly separate from the main project costs. This has led to financial practice that undermines the true value of the project, with guesstimates being simply added as an afterthought. The consequences of not recovering full costs are that both the sustainability and the delivery of project and services are put at risk.

## **Benefits of Full Cost Recovery**

- Accurate - funders get true reflection of the cost of the project
- Transparent - provide clear, defensible cost allocation method
- Efficient - reduces time spent juggling figures
- Appropriate - funders pay for all and only the overheads that support their project
- Sustainable - funded organisations survive; projects continue

There are many benefits for organisations in understanding full cost recovery. It enables an organisation to appreciate the exact amount of funding required and more importantly provides a clear idea of how a project, activity or service will impact on the financial sustainability of an organisation. Good financial practice will without doubt lead to more informed planning and decision making and create a more secure future.

Full cost recovery can give organisations a better understanding in most funding situations:

- When bidding for grants organisations must seek to recover all costs
- In contracts the full cost of delivering a service must be negotiated
- For trading, pricing for products or services must reflect the true cost of producing or delivering those goods
- Identifying and plugging gaps in fundraising
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## **Information (Links)**

To find out additional information on Full Cost Recovery, please check out these useful links to other resources.

- HLF-Understanding Full cost recovery

- Big Lottery-Full cost Recovery guidance contains the most user-friendly FCR spreadsheet
- ACEVO-Full Cost Recovery-a guide and toolkit on cost allocation
- Community Accounting Plus-Tools for planning and budgeting
- "Mind the gap" - ACEVO and Big Lottery Fund manual on FCR
- WCVA'S information sheet