Full Cost Recovery

What is Full Cost Recovery ('FCR')

Full Cost Recovery means ensuring that all costs involved in running a project are recovered, through securing funding or charging at a level which includes a relevant proportion of organisational costs.

What do the 'Full Costs' comprise?

The full costs of a project are comprised of **'Direct' costs** – those costs which are incurred as a direct result of delivering a project, eg:

- Salaries of people working directly on the project
- Their travel and subsistence
- Materials or other costs directly related to the project

and
Overhead or 'Indirect' costs – those needed to manage and support projects and the organisation itself - core costs which are shared amongst the organisation's various activities eg
- Premises hire
- Leadership (Chief Officer/manager)
- 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
- Other admin tasks (eg answering the phones, managing library resources, data processing
etc.).

Why is FCR so important?

If you are not recovering the full costs of your project you are creating a deficit for your organisation. This deficit has to be met through additional fundraising or by using other funds or subsidies to cover any shortfall. This could jeopardise the sustainability of your organisation and hence the services that you provide. 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. Conversely, it is important for funders to understand the full cost of the service you are providing; the longer- term implications of failing to support these; and for them to obtain transparency regarding costs.

The cost allocation principles of Full Cost Recovery are endorsed by the Charity Commissioners, HM Treasury, a panel representing the voluntary sector that includes funders and are consistent with the Statement of Recommended Practice (SORP).

Overview of Full Cost Recovery method:

1. Identify your project
2. Identify direct project costs
3. Identify overheads (indirect costs) for your whole organisation
4. Allocate the overheads (indirect costs) to each project
5. Calculate the total cost of each project
6. Calculate the unit cost

Step 1: Identify Direct Project Costs:

These are costs that are directly incurred as a result of the project.

Step 2: Identify your overheads:

Overheads are costs which are necessary for the organisation to operate but do not relate specifically to one project eg lighting, utilities, management costs, premises etc.

Decide which costs are direct project costs and which are overheads.

- **If the project you are looking for funding for is your core work and the only project you run, then you do not need to calculate your overheads separately - just request all your costs as direct project costs.**
  Example
  A small organisation runs a lunch club once a week. It does not run any other work or projects. The lunches, venue hire and any volunteer expenses are direct costs. There are no overheads.

- **If you are managing many projects or activities at the same time, you need to work out how to share out your organisation's overheads to each project.**
  <u>Example</u>
  An organisation runs three projects from one building: a lunch club for elderly people, training sessions for single parents and dance classes for members of the community. The organisation would like funding for the training project. They have worked out that the project's direct costs include the trainer's salary, books, stationery, a laptop and a projector. The rent and utilities costs are overheads and must be shared fairly between the organisation's three projects.

Step 3: Allocate Overheads:

The next step is to allocate overheads between projects. For example, an organisation runs three projects from one building: a lunch club for elderly people, training sessions for single parents and dance classes for members of the community. The organisation would like funding for the training project and has worked out that the project's direct costs include the trainer's salary, books, stationery, a laptop and a projector. The rent and utilities costs are overheads and must be shared fairly between the organisation's three projects.

How are costs apportioned?

Costs should be apportioned using methods that are fair and reasonable. There are several methods of apportioning costs that you could use for example staff time, time usage of building or floor space occupied.

Staff time

Costs are apportioned based on staff hours for that project. Useful for most costs. An estimate of hours will suffice.

Space used

Costs are apportioned based on the space an activity uses. Useful for building related costs such as rent, utility bills, cleaning and repair costs, rates, etc.

Time usage of building

Costs are apportioned based on the time an activity uses.

Step 4: Calculate Total Cost of Each Project:

For each project, add the direct project cost and all the overheads you have allocated to that project.
Direct Project Costs + Overheads for Project = Total Cost of Project