Full Cost Recovery

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Why?

Full cost recovery is a method of budgeting projects or services that allows organisations to recover all costs associated with the delivery of the project or service when applying to funders or submitting tenders.

Taking a full cost recovery to project grant applications (where funders accept this budget model) will support an organisation's overall resilience and sustainability by increasing the sources of income that cover core costs.



Core costs, such as rent, utilities, salaries of office staff (including the Chief Executive), marketing and even fundraising are often difficult to fund through grants and contracts. By applying full cost recovery, organisations can fund proportions of these costs from each grant or contract they receive, leaving smaller proportions to be covered by other fundraising activity. Other costs that are often overlooked, but which are important to the delivery of services are those around Volunteer training, supervision and management.

What is full cost recovery?

Full cost recovery means recovering or funding the full costs of a project or service. In addition to the costs directly associated with the project, such as staff and equipment, projects will also draw on the rest of the organisation. For example, adequate rent/room hire, utilities, administration, finance, human resources, management, and IT systems, are also integral components of any project or service.

The full cost of any project or contract being delivered therefore includes an element of each type of overhead cost, which should be allocated on a comprehensive, robust, and defensible basis.

Implementation

All organisations have overhead costs, associated with:

- Management and leadership
- Infrastructure and accommodation
- Finance, governance and controls
- Strategic development

These overhead costs must be met for the organisation to survive, grow and develop. They are therefore essential to all its outputs.

Under full cost recovery, organisations analyse their overhead costs and allocate them across the outputs, projects and services they deliver. Under this system the cost of each output includes an appropriate element of funding for overhead costs. “Appropriate” is key here.

As with all budgets, funders may doubt your ability to manage a project or question the motives of your budget if your full cost recovery projects are not realistic or disproportionate. If project staff only represent 10% of your organisation, but you include 25% of your HR costs in your budget, you should expect to have it questioned or rejected.



TOP TIP – make sure that the people in your organisation who will be involved in delivering your project are involved in identifying what costs you’ll need to cover. They have the best insight and will make sure you don’t overlook anything, including the costs involved in project set-up and closing the project down.

By implementing full cost recovery, voluntary sector organisations develop a full understanding of the true cost of their work. Such an understanding is essential for effective financial management and strategic planning across any organisation. Understanding the true cost of your work will enable you to have a more informed dialogue with funders in:

- Grant-seeking
- Competitive tendering

- Fundraising

Full cost recovery will help organisations avoid the problems involved in:

- Generating shortfalls in funding through the use of arbitrary percentages for management costs.
- **Cost conversion**: attempting to repackage overhead costs as projects
- **Cost donation**: attempting to find scarce 'core funding' to cover your overhead costs.

Full cost recovery is standard practice across the commercial sector, and is rapidly becoming standard practice in the voluntary sector.

TOP TIP – when planning a multi-year project and applying full cost recovery, remember to account for inflation of costs year on year (for example if your organisation offers incremental pay rises annually). It's quite standard to apply a general 3% increase to costs year on year, unless you have specific knowledge about how costs will increase.



EXAMPLE – say for example you apply for a grant to deliver a particular project. In addition to the direct costs of additional staff, extra computers, office supplies and so on, the project will also occupy some of your Chief Executive's time, your Finance Manager's time, and your IT support staff's time. To achieve full cost recovery, the amount of funding you request in your grant application needs to reflect the amount of time devoted to the project by these staff, as a proportion of overhead.

So, if the annual cost of employing your Chief Executive is £50,000 (including salary, National Insurance, proportion of rent/utilities etc.), and they spend 10% of their time working on the project, to recover your full costs you need to include a cost of £5,000 for the Chief Executive in your funding request. The same would apply for the Finance Manager and IT support time. Other costs you may want to include are rent, utilities or marketing.

A common way to calculate costs is to use the additional staff hours that a project creates and use this as a percentage figure to calculate costs.

For example:

Total staff hours = 200/week

New project worker = 25 hours a week

As a percentage – 25/200 = 12.5%

This figure can then be applied to calculate the projects full cost recovery total e.g. 12.5% of management time, 12.5% of rent.

All of these costs are necessary for the project to run effectively and efficiently, and you are therefore justified in asking for them to be funded.

If your organisation is not recovering the full costs of projects at any given opportunity, it is at risk of creating a deficit that has to be met by additional fundraising or by using unrestricted funds. This means that the organisation as a whole is effectively subsidising the project, which may jeopardise its ability to continue to provide its services in the future.

Further resources

Full cost recovery – guidance

National Lottery Community Fund