

FULL COST RECOVERY (FCR)

What is full cost recovery?

Full cost recovery (FCR) means securing funding for, or “recovering”, all your costs, including the direct costs of projects and all your overheads. Every organisation, whether voluntary, public or private, needs to recover all its costs, and ideally generate a surplus, or it cannot pay its employees, rent office space, offer its products and services, or plan for the future and the continued development and delivery of its services.

Funding to cover your costs can come from a variety of sources including:

- Fees
- Charges
- Grants
- Contracts
- Donations
- Trading activities or payments in exchange for a particular product or service.

In an organisation there are two types of costs:

- **Direct costs** that are incurred as a direct result of running a project or service
- **Overhead/Indirect costs** that are incurred by an organisation in order to support the projects that it runs

The full cost of your organisation includes:

- The direct costs of all your projects and services
- All your overheads

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

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 subsidy from your unrestricted funds. Your unrestricted funds are not limitless. If you are not achieving full cost recovery you are jeopardising the longevity of your organisation and hence the services you provide.

Why has full cost recovery become so important?

- Pressure on funding
- Funders require greater transparency
- Need to calculate costs accurately when contracting
- FCR is a mechanism to allocate overhead costs to projects that is easy to understand and acceptable to funders
- The cost allocation principles of FCR 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

Funders get:

- Stable organisations and services
- Better services
- No cross-subsidisation

Principles of full cost recovery:

- Materiality

- Average costs (rather than marginal costs)
- No cross-subsidisation
- Use of cost drivers (any situation or event that causes a change in the consumption of resources).

Cost Centres and Drivers:

| Cost Centre | Abbreviation | Drivers |
|------------------------------------|---------------------|----------------|
| Project A | A | |
| Project B, etc. | B | |
| Premises & Offices | P&O | Headcount |
| Director | Dir | Time |
| Support Services | SS | Time |
| Governance & Strategic Development | G&SD | Expense |
| General Fundraising | GF | Income |

Support Services – IT and Human Resources departments, for example

Central Function – Another name for Director and Support Services

Steps in Full Cost Recovery:

| | Direct Costs | | Overheads | | | | |
|------------------------------------|-------------------|-------------------|---------------------|---------------------|--------------------|----------------------|--------------------|
| Cost Centres | A ₀ | B ₀ | P&O ₀ | Dir ₀ | SS ₀ | G&SD ₀ | GF ₀ |
| Premises & Office | P&O ₀ | P&O ₀ | (P&O ₀) | P&O ₀ | P&O ₀ | | P&O ₀ |
| | ----- | ----- | ===== | ----- | ----- | ----- | ----- |
| | A ₁ | B ₁ | | Dir ₁ | SS ₁ | G&SD ₁ | GF ₁ |
| Central Function | Dir ₁₊ | Dir ₁₊ | | (Dir ₁) | (SS ₁) | Dir ₁₊ | Dir ₁₊ |
| | SS ₁ | SS ₁ | | ===== | ===== | SS ₁ | SS ₁ |
| | ----- | ----- | | | | ----- | ----- |
| | A ₂ | B ₂ | | | | G&SD ₂ | GF ₂ |
| Governance & Strategic Development | G&SD ₂ | G&SD ₂ | | | | (G&SD ₂) | |
| | ----- | ----- | | | | ===== | ----- |
| | A ₃ | B ₃ | | | | | GF ₃ |
| General Fundraising | GF ₃ | GF ₃ | | | | | (GF ₃) |
| | ----- | ----- | | | | | ===== |
| Total Cost | A ₄ | B ₄ | | | | | |
| | ===== | ===== | | | | | |

The Full Cost of, say, Project A is:

| | | |
|---|----------------------|------------------------------------|
| | A | Direct Costs |
| + | P&O | Premises & Offices |
| + | Dir | Director |
| + | SS | Support Services |
| + | G&SD | Governance & Strategic Development |
| + | GF | General Funding |
| | ----- | |
| = | A₄ | Full Cost of Project A |
| | ===== | |

Further information

Note that there is an Excel document that accompanies this factsheet and that it can be downloaded from CASH-ONLINE: www.cash-online.org.uk.

Other sources of information

Association of Chief Executives of Voluntary Organisations (ACEVO)

www.acevo.org.uk

0845 345 8481

They have several publications and a CD-Rom with full details, called: Full cost recovery - a guide and toolkit on cost allocation

New Philanthropy Capital

www.philanthropycapital.org

A set of notes to be found at:

www.philanthropycapital.org/html/full_cost_recovery.php

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