



Costing and Full Cost Recovery

This is one of a series of factsheets for voluntary and community groups issued by West Norfolk Voluntary and Community Action, WNVCA. The financial information available within an organisation is crucial to the ability to govern and manage that organisation. If insufficient or inaccurate information is supplied to those who make decisions then the decisions themselves are likely to be flawed, and this will have an impact upon the success of the organisation. If you are a registered charity the trustees also have a responsibility under SORP to manage their finances effectively to minimise risks.

The financial planning for an organisation will be closely linked to the plans and objectives, and should involve key people who have the essential information on what will impact on costs and income. The budgets for the organisation should relate to how the organisation operates – that is, to the cost centres or projects. For example, cost centres may include: administration, office, shop, training, or marketing.

All the budgets should be brought together by the managers to give a total for the whole organisation which would then need approval by the governing body. If some cost centres are thought to be too high a negotiation of reduction in expenditure may be necessary. It may be helpful to provide other non-financial information to support the figures.

As the period for the budget progresses (this is usually quarterly and yearly), the actual expenditure should be monitored against the budget and any deviations noted and either corrected or other appropriate action taken. If such monitoring of actual spend against budget and corrective action is not taken it can lead to a snowball effect with expenditure spiralling out of control. It is usual to have a forecast for the year to date which is revised as actual expenditure changes during the year, as this updates the forecast for total year spend.

Costing your funding applications

This also applies to making applications for funding. Each category of expenditure will need its own budget: see the example table below. Accurate costing of these is required to ensure that the activity, if it goes ahead, is not an unsustainable drain on the organisation's resources. A project typically has

3 stages: start-up, running the activity, and close down; allow sufficient time and resources for each.

Example:

<p>Direct costs of the project</p>	<p>Project staff salaries (including on-costs) Recruitment of project staff Project volunteer & staff travel Training of staff or volunteers Refreshments for participants Venue hire for project activity Materials for project Equipment for project Stationery and postage for project Project administration Telephone for project Publicity for project Project management Project monitoring Project evaluation Additional insurance for project activity Legal costs of project activity Staff redundancy or re-deployment at project end</p>
<p>Overhead costs A proportion of these would be allocated to each project under FCR</p>	<p>Office & general premises costs Financial management & payroll tasks Insurance for organisation – employers liability etc Website and internet Salary of general administration and cleaning staff Legal & professional fees Salary of chief executive Training of trustees Depreciation of assets</p>

Beware when deciding which costs are direct or overhead costs as it will vary from one project / organisation to another.

A budget for a future year or activity is prepared from the past or current expenditure figures. If the exact activity has not been undertaken before then the closest possible should be used as a starting point. Amend the figures with any changes due to known increase in costs; changes in the method of implementation; and not forgetting an addition for inflation for each year. Also remember to build in the future cost of replacement of or repair of assets in a maintenance cost or depreciation cost.

When costing an application it is necessary to:

1. Identify all the resources needed to deliver a project or activity, remembering to include adequate administrative and other support.
2. When entering salaries include on-costs of employers NI and pension.

3. Take into account any risk management measures
4. Build in monitoring and evaluation costs.
5. Include any management costs for your organisation to manage staff and the project – this may be as a proportion of overhead costs on a full cost recovery basis (see below).
6. Cost these as accurately as reasonably possible and obtain estimates when the funder requires this.
7. Include any in-kind contributions.
8. If the project is to run for longer than a year add inflation and other changes to costs for years 2 onwards.
9. If an audit is required include the cost of audit for the project.
10. If on a full cost recovery basis you may be able to build in costs of fundraising to sustain the project.

Remember: Always check that the particular funder will fund these costs before including them in an application.

Types of Expenditure

Revenue expenditure – the on-going running costs of the organisation, a project or activity.

Capital expenditure – the one off costs of buying fixed assets such as premises, equipment, van, furniture or repair to buildings. These need to be planned for – as fixed assets depreciate, allow replacement costs to be set aside over the life of the asset. It is beneficial to do a cost-benefit analysis prior to any substantial expenditure on an asset.

Variable costs – costs that vary as the output varies; for example, the number of training packs increase with number of people attending a course.

Fixed costs – do not change when the amount of output changes; for example one trainer is required to deliver a course whether 6 or 20 people attend.

Direct costs – costs directly caused by the activity and would not exist if that activity did not take place. They can include variable or fixed costs.

Overhead (also called indirect or core) costs – these are the costs of an organisation that cannot be related as a direct cost to activities and would still exist if the activity did not take place. For example, the cost of the person doing the wages; the cost of trustee meetings; the cost of central office premises. The hours or amount of work involved for the wages person may increase as project activities do so the costs may not necessarily be fixed.

Core costs (often referred to as overhead costs) – are those central costs of an organisation that enable it to function but cannot be attributed to a particular project or activity; for example, salary of chief executive. They will exist before and after a project or activity.

Contribution – what the activity is contributing to the fixed costs and surplus. A project or service may have an income that exceeds the cost of providing it for the organisation. Such a surplus income will help to run other parts of the organisation. However, a project or service may be a cost to the organisation to provide if the grant received for it is insufficient to cover the full cost. If one of these applies this should be taken into consideration in any financial plans or strategy.

Unit costs – the cost of providing each unit of production or service. This can be useful for an organisation to understand how much the service is costing and for funders to judge value for money. It is also particularly useful if considering charging for a service.

Cost of fundraising – the cost for the organisation of raising funds. An organisation might not know how much time, energy and resources it is putting into raising money and where time is spent most effectively without this calculation.

Full Cost Recovery

Full cost recovery is recovering or funding the total costs of your project or service including a relevant proportion of all organisational costs. It is clear that any project or service has costs directly associated with it, such as staff and equipment, but it is less obvious that it also draws on the rest of your organisation, such as office costs or managers' or trustees' time.

The full cost of your organisation is calculated from the direct costs of *all* your projects and services plus *all* your overhead costs. Therefore, the full cost of *each* of your projects should be calculated from the direct costs of your project plus a relevant portion of overheads. Calculating the full cost of your projects is the first step towards recovering, or funding, the full costs of your organisation.

Direct costs are costs needed to produce the output of a project or service. They are not required if that project does not take place

Overhead costs are the costs of supporting or administering the activity or project. These costs would still be there even if the project or activity did not take place.

Full cost recovery is gradually becoming more accepted by funders as the Government has adopted the model as part of its cost cutting review, and as part of ChangeUp and the Compact. For example, *The Big Lottery Fund will:*

- *adopt the principle of full cost recovery to allow all legitimate overhead costs to be recovered by voluntary and community organisations;*
- *introduce more flexibility in the length of funding available.*

However, to date only a few funders will fund on full cost recovery basis.

Nevertheless, it is still important for you as an organisation to know how much a project/ activity is costing you and how much (if any) of the cost is being subsidised by yourselves in order to deliver it. This knowledge will also put you in a stronger position if any negotiation takes place over the amount you will receive.

As the principle of 'full cost recovery' becomes accepted, every time you apply for funding for a project you can include an element of the overheads (also known as core costs). You do need to know, therefore, what the project is costing your organisation. In the past this has often been expressed as a

percentage (usually 10-15%) of the project cost, which can be used to support the core costs of your project. You may have to provide further justification to the funder as to how this was calculated, but often a percentage of the project costs will be acceptable BUT this is only FCR if it has been fully calculated. You should make sure for yourselves that the percentage you set is enough to cover the real cost of running the project .

Consequently, voluntary and community organisations should now be costing their projects/activities on a full cost recovery basis within applications when ever possible. If they do not how can they expect funders to pay for the true cost of their activities?

This information has been produced by West Norfolk Voluntary and Community Action set up and owned by local groups to support, promote and develop local voluntary and community action.

We have taken all reasonable steps to make sure that this information is current and accurate. We cannot, however, guarantee its accuracy or completeness and therefore cannot accept liability for your acting, or failing to act, on the information given.

For resources, books, ideas and useful information please contact West Norfolk VCA or email info@westnorfolkvca.org.