

## Full cost recovery

### Full cost recovery

#### 1 | 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 finance, human resources management and IT systems are also integral components of any project or service.

The full cost of any project therefore includes a proportion of each type of overhead cost. You should be able to show how you have calculated these costs.

#### 2 | Benefits of full cost recovery

Promoting full cost recovery has major advantages for funders of third sector organisations:

**Accuracy:** Full cost recovery gives funders a true reflection of the cost of the projects and services they support.

**Transparency:** Full cost recovery provides the only clear and defensible cost allocation method, promoting trust between funders and the organisations they fund.

**Efficiency:** Full cost recovery reduces the time spent re-packaging and analysing costs by funders and funded organisations.

**Appropriateness:** Full cost recovery ensures that funders pay for all and only the overheads that support their project, rather than subsidising other projects.

**Sustainability:** Only under full cost recovery can funded organisations survive in the long term, so that their projects and services continue.

All organisations have overhead costs, associated with:

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

These overhead costs must be met in order 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.

By implementing full cost recovery, third sector organisations develop a full understanding of the true cost of their work. Such an understanding is an essential for effective financial management and strategic planning across any organisation.

In theory all government departments were supposed to be implementing full cost recovery by April 2006. In reality, although there is a growing understanding of full cost recovery among funders, it has been slower for most funders to work towards funding all costs. Of course, it also relies on organisations to claim all their costs when writing applications.

#### 3 | Full cost recovery training

Calculating costs in a systematic and accurate way can be a complex and off-putting piece of work to begin. There are many different sources of advice,

information and training on full cost recovery. The purpose of training is to give members of organisations the tools to apply full cost recovery to their own organisation and to cascade skills and knowledge to smaller third sector and community organisations. Training also focuses on development workers and advisors with a basic knowledge of third sector finance, fundraising and accounting practices.

Advice on training courses can be found at [www.fullcostrecovery.org.uk](http://www.fullcostrecovery.org.uk) and [www.fit4funding.org.uk](http://www.fit4funding.org.uk).

## 4 | Full cost Recovery Calculators

There are some good tools to help you to get started with full cost recovery. Once you have developed a way to calculate your costs to include under full cost recovery, you will have this information to use in the future.

- The Big Lottery Fund has guidance and a calculator tool.
- CASH-online has good resources and a spreadsheet tool to help you calculate costs.

See [Further Help](#) for website addresses.

## 5 | Sustainable funding and full cost recovery

Sustainable funding is about ensuring ongoing viability of an organisation. Sustainability is about much more than simply obtaining money. Sustainability requires effective planning and robust financial management together with an understanding of what funding and income opportunities are available and a willingness to diversify into these where possible. It also involves building organisation skills and capacity to ensure the best and most effective use of resources.

Good practice for sustainability:

- **Plan effectively:** Knowing where you want to be in three, five or ten years time will help you understand the type and amount of funding needed.
- **Diversify income:** Avoid relying on any single funding source to ensure work continues if and when one income stream dries up.
- **Develop organisation skills:** This will help you to access and manage new income sources and build capacity more widely.

- **Fund appropriately:** The kind of funding or finance your organisation needs depends on what it does, who it does it for, and how it plans to develop in the future, use the right income sources to drive development at the right time.

### Further help

#### Ask BVSC Helpline

0121 678 8888  
[askbvsc@bvsc.org](mailto:askbvsc@bvsc.org)

#### Development Agencies website

Links and information for developing voluntary and community organisations.  
[www.birmingham-da.org](http://www.birmingham-da.org)

#### CASH-online

Full cost recovery page includes guidance and a tool to calculate your costs.  
[www.cash-online.org.uk](http://www.cash-online.org.uk)

#### Big Lottery Fund

Search for 'full cost recovery' at:  
[tinyurl.com/24gov4](http://tinyurl.com/24gov4) or  
[www.biglotteryfund.org.uk](http://www.biglotteryfund.org.uk)

#### ACEVO full cost recovery site

ACEVO (Association of Chief Executives of Voluntary Organisations) have led the push to full cost recovery. Website includes details of training and case studies.  
[www.fullcostrecovery.org.uk](http://www.fullcostrecovery.org.uk)